



The City of San Diego

Staff Report

DATE ISSUED: 05/17/2018  
TO: City Council  
FROM: Assistant Chief Operating Officer  
SUBJECT: 101 Ash Street Building Lease and Proposed Tenant Improvements

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Council District(s): 3

OVERVIEW:

This item provides a comprehensive overview of the 101 Ash Street project from the City Council's approval of the lease-to-own agreement in October 2016 to the status of the building today, which is projected to be a taxpayer-owned asset worth \$112 million<sup>1</sup> at the end of the lease term. It also presents options for operationalizing the building for the next 20 years and beyond for up to an estimated \$40.4 million<sup>2</sup> in long-term savings; an independent review that validates key assumptions and rates the scenarios for moving forward based on cost-effectiveness; and details on financing plans and next steps.

PROPOSED ACTIONS:

THIS IS AN INFORMATION ITEM.

DISCUSSION OF ITEM:

In late 2014, during a review of office space leases occupied by City staff in the downtown area, Real Estate Assets Department (READ) staff identified that 49 percent of the City's current leases would expire within the next five years.<sup>3</sup> READ staff identified lease rates were increasing downtown due to two primary factors, 1) Increased demand of office space as more companies located operations in downtown, 2) No known development of new large office towers to accommodate the growth over the next five years. In 2015, news reports indicated that downtown rents would soon reach \$4 per square foot for Class A space and \$3.00 per square foot for Class B space. This information was

<sup>1</sup> Estimate prepared by READ, assuming an annual appreciation rate of 2.30% over the purchase price of the building.

<sup>2</sup> The savings was calculated in the same format as the original assumptions in the staff report from 2016, shown in this report as Exhibit A. The same analysis has been used for each of the scenarios presented in this report and is outlined in Exhibit H.

<sup>3</sup> 141,888 sq. ft. at Exec Complex – lease expiring 6/30/2019; 90,778 sq. ft. 525 B Street – lease expiring 6/30/2019; 22,216 sq. ft. at FJC Smart Corner expiring 9/30/2020.

disconcerting as the City worked to plan for future operating costs. Subsequently, a determination was made to focus on securing long term solutions to control the City's office space expenses. City staff began to discuss options for office ownership to minimize the negative effects of being subject to real estate conditions outside the City's control, with the ultimate goal of saving taxpayer's money that could be reinvested toward higher priority uses such as neighborhood services.

This area was the focus for acquiring property due to the efficiencies that come from a centralized workforce. At the time, there were no office buildings within the vicinity of the City Hall campus that were being marketed for sale. However, over the next 18 months the landscape began to change and the potential to secure long-term financial security started to develop.

In 2016, READ staff began to negotiate a lease at 110 Plaza to address current and long-term workspace needs of City employees. During this time staff became aware of the opportunity to purchase the 314,545-sq. ft. commercial building located at 101 Ash Street. Additionally, as negotiations continued, the proposed lease rates at 110 Plaza were increasing, meaning the City would not be able to control long-term expenses.

As is outlined in both the attached (Exhibit A) Report to Council, No.16-070-Revised and in the attached (Exhibit B) IBA Report No. 16-34, the negotiations for 101 Ash Street building focused on a lease-to-own agreement. As the staff report stated, "based upon the original purchase and sale agreement signed between Cisterra, LLC and the current owners it was determined that the feasibility of an assignment for the purchase was unavailable, and as a result the City is now able to lease-to-own the building..." As a result, staff presented a lease-to-own agreement for City Council's approval.

The lease-to-own agreement provided the City a long-term solution for staff currently in leased space that would control future office space occupancy expenses. As a result, pursuing eventual ownership of the building was deemed to be the best fiscally prudent option for the City. The approach of purchasing 101 Ash Street would fully amortize the costs over 20 years, with no balloon payment at the end of the term, and the City would fully own the building in the end, which, as of today, has an anticipated residual value of \$112 million by the end of the lease term.

On October 17, 2016, the City Council heard the item and authorized the Mayor to execute a 20-year lease-to-own agreement for 101 Ash Street (O-20745). The following are the benefits of the lease-to-own option of 101 Ash Street that were included in the report and presentation:

1. Providing an estimated savings in occupancy expenses of over \$44.4 million in a 20-year period and allowing the City to control its expenses at a time of record-breaking rent increases for the downtown market, as comparable Class A office space citywide.
2. Allowing critical City operations to be centralized in one building as opposed to being spread across several buildings; thus, providing for less wasted travel time between buildings for employees, as well as improved service to the public.
3. Substantially improving working conditions for all affected City employees.
4. Increasing accessibility and ease of flow for the public.

The overall analysis provided within the above-referenced report includes the relocation of the 459 employees working at the time in leased office space at the Executive Complex, located at 1010 Second Avenue. This move would reduce the ongoing rent expenses. At the time of the report, there had been no detailed space planning for each floor of 101 Ash Street, other than to ensure that

Development Services Department (DSD) staff could be accommodated in the building and the first floor contained enough square footage to serve as the one-stop customer service permitting center.

As part of the terms presented to Council, the City secured a \$5 million tenant allowance which was included in the agreement. It was anticipated the funding would be used to reconfigure the following five floors: 1, 2, 17, 18, and 19, which represented the floors needing the most extensive tenant improvements for the City's planned uses. This also assumed that the remaining floors would not require extensive space planning and reconfigurations for employees to occupy all 19 floors. As the report states, approximately 1,100 employees could be in the building based upon estimated prior to full space planning. The presentation to the City Council also reflected an estimated move-in date of July 2017.

The following sections outline what has transpired since the approval of the lease-to-own agreement for 101 Ash Street by the City Council.

#### **December 2016 to July 2017**

In December 2016, READ engaged Gensler, an architectural firm with which the City had a contract, to commence programming for each department to be relocated to 101 Ash Street. This detailed space planning, by floor, specifically outlines where each department would be placed in the building, where each of their employees would be located (along with storage), and common areas such as conference rooms. Gensler's instructions were to maximize the efficiency of the building to fit as many employees as possible (consistent with the standards set by the City's Administrative Regulation 56.00, Work Space Requests, Exhibit C) and to maximize the re-use of existing furniture, walls, and other existing layout elements of the building. As was stated in the staff report, the building would accommodate approximately 1,100 which was explained at the hearing to include DSD employees located in the City Operations Building, and all City employees currently located in the Executive Complex.

The City's goal of maximizing the use of the building to reduce reliance on third party lease space was supported by the rapid change in the office rental market. The City's leased occupancy at 525 B Street is an example of how downtown office rental rates were increasing at the time. In 2016, the City's lease for space at 525 B Street was for \$1.70 per square. The new rates quoted by the landlord were approximately 40 percent higher than the \$1.70 rate, and would increase another 20 percent during the lease extension. The City ultimately signed a third amendment with 525 B Street on October 11, 2016, which provided for a phased-in rent increase which jumps to \$2.61 per square foot on July 1, 2020, for a total of 128,201 square feet of leased space in that facility. It is important to note that there were no other space options available downtown to accommodate the entire PWD in 2016 or now.

In January 2017, the City took possession of 101 Ash Street. Shortly thereafter, READ and PWD began to develop the project scope of the tenant improvements based on Gensler's space planning. This included meeting with all impacted departments to identify space needs; mechanical, electrical, plumbing inspections and assessments; completing Americans with Disabilities Act (ADA) and Title 24 assessments; IT requirements; and maximizing use of space on all 19 floors.

Following approval by the City Council, the development of the project scope was also impacted as the City sought authorization to relocate the Emergency Operations Center (EOC), currently in the City Operations Building, to 101 Ash Street. The City had to conduct an extensive investigation to

determine if the building's structural and seismic integrity met current building code requirements to designate a portion of 101 Ash Street to serve as an EOC. The investigation and determination took time, delaying final space planning. The request to the City's Building Official was eventually denied due to the existing current structural and seismic conditions not conforming with the current building code for designated EOCs. Existing EOCs are grandfathered but, as a new EOC, this would have stricter requirements.

In April 2017, during development of the Proposed FY18 budget, staff began to analyze the costs of the final space planning and the time associated with construction prior to move-in. Knowing that the improvements would not be completed by the initial goal of July 2017, staff updated the timeline for completion of the 101 Ash Street Improvements capital improvement project to FY19, which was adopted by City Council in the FY18 adopted budget (Exhibit D). Staff did not provide a separate update on the project at the time.

In addition to the revisions to the CIP in the adopted FY18 budget, staff included the FY18 lease payments and operating expenses associated with the building. The City budgets the lease payment and operating expenses in the Citywide operating budget for the entire building. Non-General Fund Departments, including DSD, reimburse the General Fund for their portion of the lease payment and operating expenses. During FY18, the annual lease payment of \$6.4 million and operating expenses of \$3.1 million were allocated to the departments. In FY18, the DSD Enterprise Fund was also budgeted to reimburse the General Fund a total of \$660,000 to rent the City Operations Building for the same timeframe.

Meanwhile in the summer of 2017, renovations and demolition work began in the Executive Complex, a privately-owned building, while it was being leased and occupied primarily by the City. At the time, approximately 466 City employees worked in the building, including the customer-facing City Treasurer Collections Division.

#### **August 2017 – March 2018**

In August 2017, the 101 Ash Street Tenant Improvements construction documents were submitted to DSD for review. The submittal of nearly 1,000 pages were far more specific than space planning designs and included modifications to plumbing, electrical and HVAC, among other changes. DSD reviewed the submittal and approved the plans for permitting in October 2017, at which point, PWD began working with the architect and their subconsultants to complete construction bidding documents.

Exact costs of the proposed improvements were still not known; however, based upon the architectural plans, it became clear the estimate for fully operationalizing all 19 floors of the building, including modular furniture, IT, and move-in expenses would be more than the \$5 million tenant allowance discussed at the City Council hearing. This update was not provided to the City Council, although staff did report in the Capital Improvement Program's Mid-Year Monitoring Report, released in November of 2017, *"The \$5.1 million in uncommitted Capital Outlay Fund balance has been identified and preliminarily set aside to pay for general fund capital improvement tenant improvement for the 101 Ash Street Building. The specific request to appropriate funding for this project will occur when the funds are needed, closer to the expected award date for the construction contract."*

Understanding that more than 1,100 City employees needed work space and as the office rents continued to climb, it made long-term financial and operational sense for the City to reduce its

dependency on variable rents and incur higher one-time costs to invest in building that it would eventually own and capitalize. The City continued moving forward with the capital improvement project at 101 Ash Street.

In December 2017, due to the deteriorating conditions during the ongoing renovations at the privately-owned Executive Complex, the decision was made to expedite the move of employees to 101 Ash Street by including a 24/7 work schedule in the 101 Ash Street Improvements project bid. It was estimated that while the construction costs could be increased by about 10 percent, the construction timeline could be reduced by upwards of four months, allowing move-in to commence in October 2018 and be completed by the end of the calendar year, thus saving rent and operating expenses (approximately \$200,000 per month) at the Executive Complex and sparing employees and the visiting public the continued inefficiencies associated with working in a building undergoing major construction.

On January 4, 2018, the 101 Ash Street Tenant Improvements project was posted for bid. The scope included the total tenant improvements, upgrades to comply with the ADA upgrades, asbestos removal, furniture, IT infrastructure, permit/plan check/environmental monitoring counters, and exceeded the original tenant improvement allowance of \$5 million. A significant portion of the tenant improvements were related to upgrading and integration of the mechanical system, which would support the additional employee workstations identified during space planning.

On January 29, 2018, the FY18 Mid-Year Budget Monitoring Report was issued and included an overview of the 101 Ash Street Tenant Improvement project and referenced specific expenditures related to the rent paid by READ and DSD (page 37). While the report detailed the status of the building, it did not specifically reference the increased scope or the anticipated additional costs.

*During the first quarter of Fiscal Year 2018, mechanical, electrical, plumbing and Americans with Disability Act (ADA) consultants have completed inspections of the 101 Ash building and submitted the findings. Based on these findings, the architectural consultant finalized the space plans and construction drawings. The construction drawings were submitted to the Development Services Department in September 2017. The plans have been approved and permits will be issued to the contractor ultimately chosen by the City. It is anticipated that contract for construction will be awarded in March or April 2018 with tenant improvements commencing in April 2018. The first phase of tenant improvements will begin on the floors that will be occupied by departments relocating from the Executive Complex Building (1010 2nd Ave). The second phase will consist of the floors that will be occupied by the Development Services Department staff relocating from the City Operations Building (1222 First Ave.). Departments relocating from the Executive Complex are expected to move into 101 Ash during the first half of in Fiscal Year 2019.*

While staff discussed having an 24/7 work schedule could reduce the number of bidders, other factors could also have contributed to the reduced competition that was seen following the close of the bidding process. On February 20, 2018, the bids were opened and West Coast General Corporation was the lowest responsive bidder with a bid price of \$21,679,484. The combination of a mandatory bid conference and a saturated construction market are likely to have contributed to the low number of bidders and possibly resulted in higher costs.

On March 26, 2018 staff cancelled the bids.

## **NEXT STEPS AND RECOMMENDATIONS**

Since the cancellation of the bids, staff have been briefing City Council members, as well as developing options for 101 Ash Street including different scenarios with comparative estimates for the City Council's review.

In consideration of the following scenarios, investments toward the long-term value of the asset, nature of this lease-to-own agreement, and use of leased office space for employees should be considered.

The lease-to-own agreement for 101 Ash Street fully amortizes the costs over 20 years with no balloon payment at the end of the term, at which point the City will own the building, which as of today has a projected residual value of \$112 million at the end of the lease term. The City must weigh how upfront capital improvements to add space usable for locating more employees will increase the value of the building in the long-run.

Additionally, because of the unique nature of the lease-to-own arrangement, all payments made so far on 101 Ash Street should be viewed not as rent but as a mortgage payment, since this is an asset that the City will eventually own. And while staff is committed to moving employees into 101 Ash Street and avoiding unnecessary costs, it should also be noted that the City decided to locate most of the employees displaced from the Executive Complex (as discussed above) in existing leased space or City-owned property, in some cases working two to a cubicle, before they relocate to 101 Ash Street. This has minimized additional costs incurred while staff moves forward with preparing 101 Ash Street for City employees.

Moving forward the need for additional leased space could increase depending on which of the following scenarios, is selected.

There are four options that include improvements to the building ranging from moving in a minimum number of employees into the building, shown as "As Is", to maximizing the number of employees to full occupation and tenant improvements on all 19 floors. The four scenarios are presented in Exhibit E and H. Exhibit E provides a cost comparison of scenarios and further details capital costs. Exhibit H is presented in the same format staff presented to Council, as shown in the staff report (Exhibit A).

Items that are costed out and included for each scenario include:

- Security and access control measures
- Compliance with Federal accessibility laws
- IT-related services
- Fiber optics to the building
- Modular and other standalone furniture
- Finance cost assumptions, as necessary
- Outside lease costs, as necessary

### **Scenario 1: Occupy the Building "As Is"**

No tenant improvements would be completed, meaning there would not be a public serving one-stop facility for DSD.

- Estimated total Scenario cost over the next ten years of \$56.2 million (\$3.1 million in capital costs and \$53.1 million in operations costs), per Exhibit E, and excludes any tenant improvements that will likely be required by DSD in their outside lease space.
- With an estimated building occupancy of 801, this would require the City to find and lease additional space for the 493 employees DSD will have in the next several years (included as part of cost).
- With DSD not occupying the building, the City's General Fund will need to reimburse the DSD Enterprise Fund for costs incurred to date and identify other funding for future lease payments.
- Does not adequately address needed optimization of the building.
- Total (cost) or savings: (\$50.3 million), per Exhibit H

Any additional reconfigurations that might occur in the future will be completed with employees occupying the building and will require alternative employee accommodations and/or relocation if such improvements impact the encapsulated asbestos located throughout the building

### **Scenario 2: Development Services Department Improvements Limited to One Floor For "One-Stop" Permitting Facility**

Tenant improvements would occur on only the first floor for the public serving one-stop facility for DSD. This would accommodate 87 employees, with the balance of the existing DSD employees located throughout 101 Ash Street building.

- Estimated total Scenario cost over the next ten years of \$45.3 million (\$7.3 million in capital costs and \$38 million in operations costs), per Exhibit E.
- With an estimated employee occupancy of 821, outside space will need to be identified for an estimated 336 displaced employees who cannot be accommodated in the lower occupancy limit for the building.
- The City will be responsible for ADA improvements to the sidewalks around 101 Ash Street, as a condition of the building permits.
- Scenario assumes the General Fund issues \$2 million in commercial paper on behalf of DSD to pay for improvements and that these funds are repaid within two years by the DSD Enterprise Fund.
- Total (Cost) or Savings: (\$21.1 million), per Exhibit H

### **Scenario 3: Improvements Limited to Five Floors (1 (one-stop shop), 2, and top 3 floors**

Tenant improvements on floors 1, 2, 17, 18 and 19 including the public serving one-stop DSD facility.

- Estimated total Scenario cost over the next ten years of \$40.4 million (\$15.5 million in capital costs and \$24.9 million in operations costs), per Exhibit E.
- With an estimated employee occupancy of 955, additional space will need to be located for an estimated 202 displaced employees who cannot be accommodated in the lower occupancy limit for the building.
- The City will be responsible for ADA improvements to the sidewalks around 101 Ash Street, as a condition of the building permits.
- Total (Cost) or Savings: \$6.1 million, per Exhibit H

This scenario assumes the General Fund issues \$5 million in commercial paper on behalf of DSD to pay for improvements and that the commercial paper is converted into a 15-year bond and is repaid by the DSD Enterprise Fund.

#### **Scenario 4: Maximize Employee Centralization with Improvements to All Floors**

Tenant improvements for all 19 floors to accommodate approximately 1,157 employees.

- Estimated total Scenario cost over the next ten years of \$32.7 million (\$27.6 million in capital costs and \$5.1 million in operations costs), per Exhibit E.
- No additional space will need to be identified or leased based on current operational projections.
- The City will be responsible for ADA improvements to the sidewalks around 101 Ash Street, as a condition of the building permits.
- Scenario assumes the General Fund issues up to \$12 million in commercial paper on behalf of DSD to pay for improvements, that the commercial paper is converted into a 15-year bond and is repaid by DSD.
- Total (Cost) or Savings: \$40.4 million, per Exhibit H

#### **Independent Reviews**

To ensure validity of the assumptions, the Mayor directed that each scenario be reviewed by an independent entity. In addition, he directed that the construction documents and bid specifications be reviewed for reliability.

The scenarios outlined in Exhibit E, were developed and analyzed by City staff based on specific leasing assumptions and identified market trends. After developing these scenarios, City staff requested a review of the basic leasing assumptions and identified market trends from team led by Matthew Carlson, Senior Vice President of CBRE, Inc. This was a pro-bono analysis and provided in Exhibit F. In summary, the review is consistent with City's staff's previous determinations as follows:

- The leasing assumptions made by City staff of office space for any displaced employees who must then have space leased for them are reasonable given current conditions in the market. These include start rent of \$3 per sq. ft. per month with 3 percent annual increases and an assumption of 250 sf. ft. of space per employee. This rent assumption is conservative given the fact that it does not include operating expenses or potential tenant improvement overages.
- The trend in the market for larger user groups, including private sector businesses is to maximize the efficiency of office space prior to occupancy.
- It is much more cost effective for large user groups to invest tenant improvements into a property they own, rather than a property they are leasing.

If Scenario 2, 3 or 4 is chosen, the City will issue another bid. In advanced of an issuance, the City hired Roesling Nakamura Terada Architects (RNT) to review the construction drawings and specifications, nearly 1,000 pages. While they have not completed their review, they have provided initial observations that will prove helpful in securing the best bids for the City. Staff is taking the information provided and working with Gensler to make the corresponding changes which will provide for a tighter bid specification. Because the mechanical components of the building are a significant portion of the overall tenant improvements, they are also performing an in-depth review of the mechanical drawings and specifications.

Based upon the long-term cost savings over a 10 and 20-year period, overall efficiencies associated with co-locating certain departments in one building such as the Planning and Development Services departments, and the proximity to other City facilities, staff recommends Scenarios 3 and 4 for the construction bidding process moving forward. As was the case in 2016, cost for rented space



anywhere in San Diego will continue to increase over time. The most long-term prudent strategy is to house City employees in City-owned buildings.

### Financing Plan

Financial Management Department has identified approximately \$18 million in available funding sources for 101 Ash Street tenant improvements, \$5 million of which has already been appropriated from the building tenant allowance. Total costs will depend on final determination of the scope of tenant improvements based on the scenarios described above, but estimated to be up to \$28 million. Based on current cost estimates, identified available cash represents only partial funding of Scenario 4.

Depending on the scenario chosen, the Debt Management Department would request authorization to expand the General Fund commercial paper program to close any funding gap after the construction bids are received. For Scenarios 2, 3 and 4, DSD would be responsible for debt service payments on commercial paper proceeds up to \$12 million used for the Department's allocation of tenant improvement costs.

As is outlined in the FY18 Year-End CIP Budget Monitoring Report, released on May 17, 2018, \$13.2 million in appropriations adjustments were requested for 101 Ash Street and are broken down by funding source below:

- a. \$2,100,000 from transfer for READ's General Fund budget for costs originally budgeted for the move into the 101 Ash Street building;
- b. \$9,517,649 from the Capital Outlay Fund, 400002 to support both General Fund department and Non-General Fund Departments with insufficient fund balance;
- c. \$754,198 from Department of Information Technology Fund, 200308;
- d. \$490,725 from Engineering and Capital Project Fund, Fund 720057;
- e. \$71,975 from Facilities Financing Fund, 200001; and
- f. \$251,618 from Transient Occupancy Tax Fund, 200205 to support the Commission of Arts and Culture's portion of the improvements.

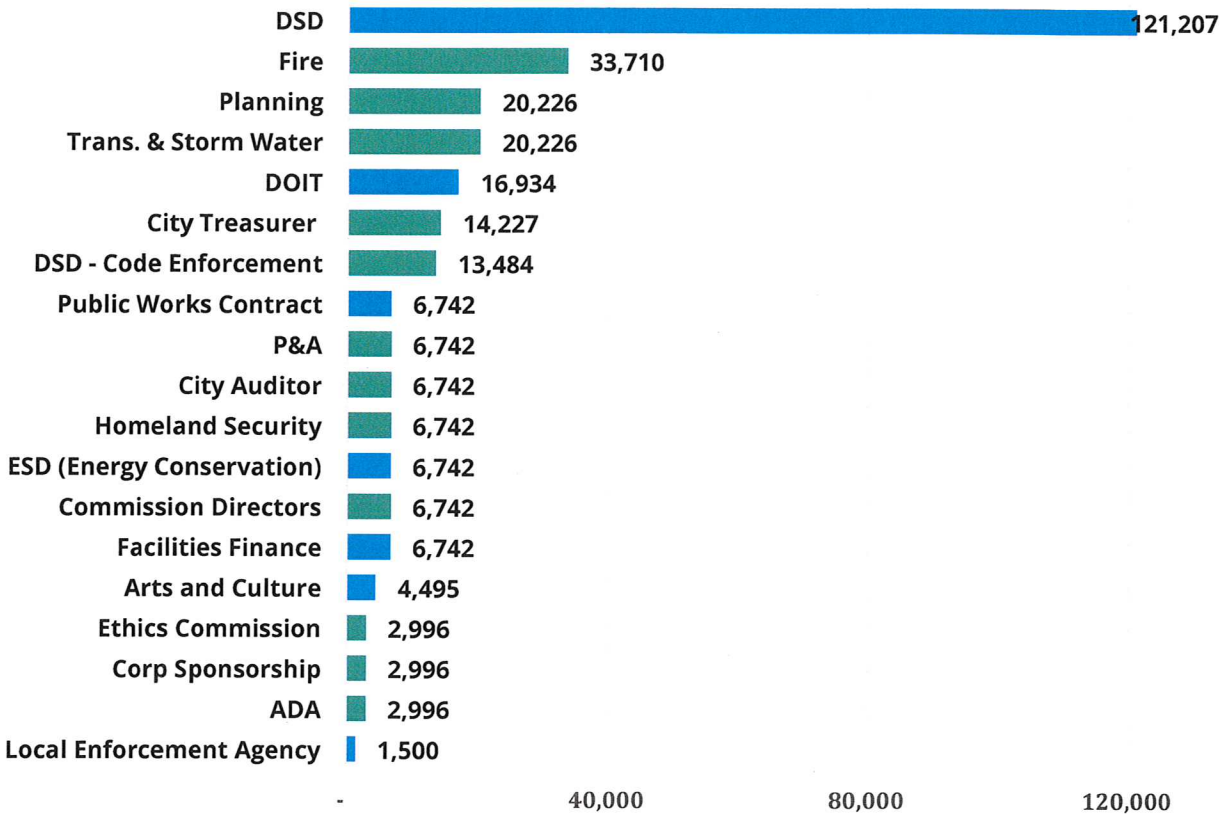
Of the planned improvements of the 19 floors, DSD staff would occupy approximately 40.9 percent of the building with the 516<sup>4</sup> of the 1,157 planned work spaces. The cost of those improvements, which would be paid by the enterprise fund, is close to 42.3 percent of the total tenant improvement costs, primarily due to the one-stop customer service facility planned for the first floor. The calculation methodology is shown in the table below:

	TOTAL	Citywide (General Fund)	Dept IT (200308)	ESD (200224)	Facil. Finance (200001)	LEA (200226)	Public Works (720057)	DSD (700036)	Arts and Culture (200205)
SQFT Allocation (Total)		45.61%	5.60%	2.23%	2.23%	0.50%	2.23%	40.11%	1.49%
Floors 1 Expense Allocation		1.98%	0.00%	0.00%	0.00%	0.00%	0.00%	98.02%	0.00%
Floors 2-19 Expense Allocation		51.81%	6.40%	2.55%	2.55%	0.57%	2.55%	31.88%	1.70%
Total Cost Allocations		44.58%	5.47%	2.18%	2.18%	0.48%	2.18%	41.47%	3.63%

These funding sources will support the following Departments who are expected to occupy 101 Ash Street. General Fund Departments are shown as green and Non-General Fund shown in blue:

<sup>4</sup> This is the planned build out. Current DSD staff is 448.

## 101 Ash Square Footage by Department and Fund



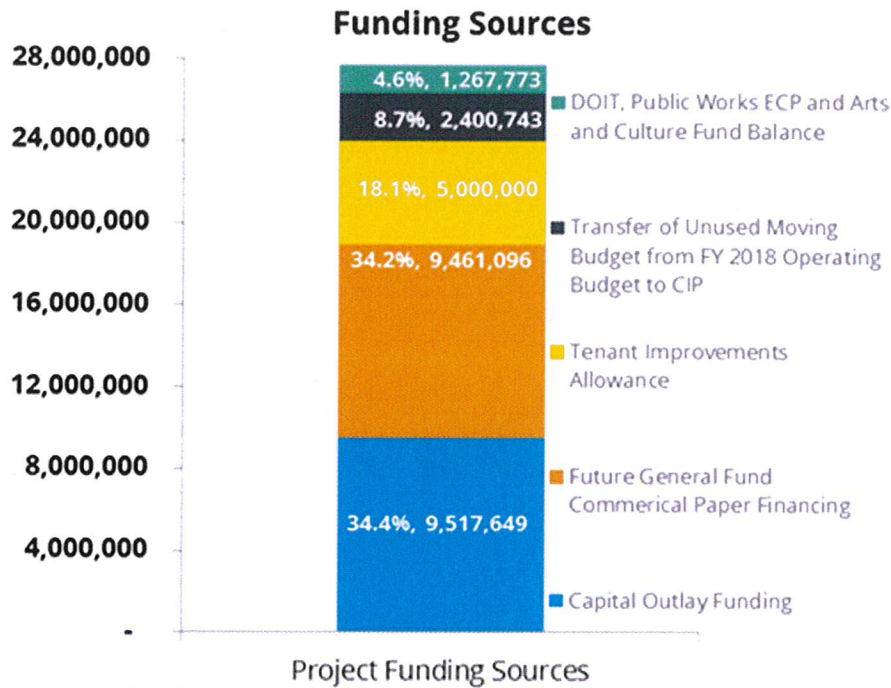
Based on the square footage, costs should be allocated as follows:

	Citywide (General Fund)	Dept IT (200308)	ESD (200224)	Facil. Finance (200001)	LEA (200226)	Public Works (720057)	DSD (700036)	Arts and Culture (200205)
Tenant Allocation (Distributed by Square Feet)	2,280,509	280,186	111,552	111,552	24,819	111,552	2,005,463	74,367
Transfer of FY 2018 Operating Budget	2,100,000	180,781	-	71,975	-	-	-	47,987
<b>Fund Balance</b>		1,051,785	490,725	418,750	109,180	490,725	-	279,164
FY 2019 Commercial Paper							9,461,096	
FY 2018 Capital Outlay Fund	7,945,092							
<b>Total Tenant Improvements</b>	<b>12,325,601</b>	<b>1,512,752</b>	<b>602,277</b>	<b>602,277</b>	<b>133,999</b>	<b>602,277</b>	<b>11,466,559</b>	<b>401,518</b>

These allocations were adjusted based on available fund balance:

	Citywide (General Fund)	Dept IT (200308)	ESD (200224)	Facil. Finance (200001)	LEA (200226)	Public Works (720057)	DSD (700036)	Arts and Culture (200205)
Tenant Allocation (Distributed by Square Feet)	2,280,509	280,186	111,552	111,552	24,819	111,552	2,005,463	74,367
Transfer of FY 2018 Operating Budget	2,100,000	180,781	-	71,975	-	-	-	47,987
<b>Fund Balance</b>		573,417	-	-	-	490,725	-	203,631
FY 2019 Commercial Paper							9,461,096	
FY18 Capital Outlay Fund	9,517,649							
<b>Total Tenant Improvements</b>	<b>13,898,158</b>	<b>1,034,384</b>	<b>111,552</b>	<b>183,527</b>	<b>24,819</b>	<b>602,277</b>	<b>11,466,559</b>	<b>325,985</b>

The figure below shows the allocation of expected cost by funding source. The commercial paper allocation for DSD's portion of the improvements is the only appropriation not included in the Year-End Action and is expected to be requested once bids are opened for the construction contract. The figure below shows the breakout of funding by source.



This financing and scope of work is reflected in Exhibit G, a revised Proposed FY19 CIP S17009 - 101 Ash Street Improvements. If the Committee approves the financing in the year-end CIP action staff would go to bid by June 4.

Staff would bring the construction bid results back to Council Committee or full Council for their concurrence of the appropriate scenario to execute. Due to timing of the bid opening in mid/late July, and the desire to initiate construction in September/October, a public hearing will need to be held in late July/early August.

It should be noted that the City Council will consider approval of DSD fee adjustments in June 2018, as were presented to Budget and Government Efficiency Committee on April 18, 2018. Proposed action is a recommendation to approve a fee not to exceed amount over three years, part of which will be to cover the DSD's share of the lease space. Rate increases for DSD will be adjusted based on final cost estimates after construction contract is awarded, but will not exceed the requested authority.

#### CONCLUSION

While the timeline and budget to operationalize 101 Ash Street building has been modified significantly since the City Council's approval of the lease-to-own agreement in October 2016, a recent independent review has concluded the leasing assumptions made by City staff were reasonable, the City's intention to maximize the efficiency of 101 Ash Street's office space prior to occupancy is consistent with market trends, and that Scenario 3 or 4 would be the most cost-effective long-term investment, with Scenario 4 (full building occupancy with improvements to all 19 floors) being substantially more financially viable for the City in the long term.

Key benefits from the lease-to-own agreement for the building located at 101 Ash Street include:

- Securing for the City and its taxpayers an asset projected to be worth approximately \$112 million at the end of the lease term;
- A net cost savings of approximately \$40.4 million over 20 years based on Scenario 4, which generates the most long-term savings;
- Providing increased budget certainty – and avoiding additional costs due to rental market unpredictability – by locking in low lease rates for the next 20 years, which will conclude with the City obtaining full ownership of a 314,545-sq. ft. Class A building;
- Offering the public, a much-needed and frequently-requested one-stop Development Services customer service center;
- Allowing the City to consolidate a large segment of its employees into one building, contributing to more efficient operations and more effective use of a City asset to accommodate a growing workforce.

Key takeaways from the 101 Ash Street lease and tenant improvement include:

- When a proposed property agreement is time-sensitive, as was the case with 101 Ash Street, City staff must be clearer about the calculated risks, strategic benefits and any limits to knowledge of the property prior to consideration by the City Council.
- Though this project is projected to generate significant long-term savings for the City, in future cases where the City intends to purchase commercial real estate, an external third-party expert review of tenant improvements for the entire building should be completed and documented as part of the approval process. The City's experience designing and constructing major public works projects is not sufficient for space planning of building renovations or other specific property uses. Time for appropriate due diligence must be accounted for when developing proposals for potential property acquisition and long-term leases.
- The City Council should be provided more regular updates on major capital improvement projects after they are approved, like what we do for the Pure Water project, in which quarterly reports are heard at a City Council Committee. In the case of 101 Ash Street, the updates City staff provided via regularly scheduled Capital Improvement Program updates were not sufficient to properly inform the Council.

If the Committee provides direction to include the appropriation of funding for the 101 Ash Street Improvements, as reflected in Exhibit G, staff will move forward with the bidding of the project which will provide options for the final tenant improvements of a minimum of five floors, as outlined in Scenario 3 to a maximum of 19 floors, as outlined in Scenario 4. Staff will return to Committee and/or City Council in the July or August 2018.

The lease-to-own agreement for the building located at 101 Ash Street provides the City a much-needed customer-focused one-stop Development Services center and space for a growing workforce at predictable low lease rates for the next 20 years, which will conclude with the City's ownership of the 314,545-sq. ft. commercial building near our other Class A commercial real estate downtown.

City Strategic Plan Goal(s)/Objective(s):

- Goal #1 Provide high quality public service
- Objective #1 Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services
- Objective #2 Improve external and internal coordination and communication
- Objective #3: Ensure equipment and technology are in place so that employees can achieve high quality public service.
- Goal #2 Work in partnership with all our communities to achieve safe and livable neighborhoods
- Objective #3 Invest in infrastructure

Fiscal Considerations:

The fiscal consideration ranges depending upon the scenario that is finally adopted for the building, which are outlined in the report and detailed in Exhibit G.

Environmental Impact:

This activity is categorically exempt from CEQA pursuant to CEQA State Guidelines, Section 15301 (Existing Facilities).

Equal Opportunity Contracting Information (if applicable):

The construction contract is subject to the City's Equal Employment Opportunity Outreach Program (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517)

Other actions are not subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and Non-Discrimination Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

Previous Council and/or Committee Actions:

- Ordinance Number: O-2017-54

Key Stakeholders and Community Outreach Efforts:

City taxpayers and City employees

  
\_\_\_\_\_  
Director, Real Estate Assets  
Cybele Thompson  
\_\_\_\_\_  
Assistant Chief Operating Officer  
Stacey LoMedico

Exhibits:

- A. Report to Council No. 16-070-Revised
- B. IBA Report No. 16-34
- C. Administration Regulation 56.00
- D. FY18 Adopted Budget CIP S17009 – 101 Ash Improvements
- E. Comparative Estimated Costing by Scenario, May 2018
- F. CBRE Analysis, dated May 16, 2018
- G. Revised FY19 Proposed Budget CIP S17009 – 101 Ash Improvements, May 2018
- H. 101 Ash Street Lease-to-Own with Scenarios 1, 2, 3, and 4, May 2018



## THE CITY OF SAN DIEGO

## Report to the City Council

**DATE ISSUED** October 13, 2016 **REPORT NO.** 16-070-  
Revised

**ATTENTION** Honorable Council President and Members of the City Council

**SUBJECT** Lease of the Property and Improvements located at 101 Ash Street,  
San Diego, CA 92101 (the former Semptra Building – APNs 533-424-  
11-00 and 533-424-14-00)

**REFERENCE** N/A

**REQUESTED ACTION**

1. Authorize the Mayor or his representative to execute a 20-year lease-to-own agreement (Lease) between the City of San Diego and 101 Ash, LLC, a California municipal corporation (101, LLC), or affiliate, for a lease for the real property and improvements at 101 Ash Street with ownership automatically transferring to the City of San Diego upon lease expiration.
2. Authorize the Chief Financial Officer to appropriate and expend an amount not to exceed \$4,183,448.50 for the remaining Fiscal Year 2017 for the lease-to-own agreement between City and 101 Ash, LLC, for the property and improvements located at 101 Ash Street, San Diego, CA 92101 from the General Fund in order to pay rent (\$2,673,633) and operating expenses (\$1,509,816) at 101 Ash Street from the date of lease commencement (estimated to be January 1, 2017) through June 30, 2017.
3. Authorize the Chief Financial Officer to transfer up to \$1,921,000 from the Real Estate Assets Operating Department Budget to Citywide Program Expenditures Department to provide funding for the property and improvements located at 101 Ash Street.
4. Authorize the Chief Financial Officer to expend an amount not to exceed \$201,902,440 for the 20-year lease-to-own agreement between the City and 101 Ash, LLC, for the properties and improvements located at 101 Ash Street, San Diego, CA 92101, including rent and operating expenses.
5. Authorize the Chief Financial Officer to deposit 101 Ash Street parking rent revenue into the General Fund 100000.
6. Establish a restricted CIP fund for capital improvements relating specifically to 101 Ash Street, San Diego, CA 92101.

**STAFF RECOMMENDATION**

Approve the requested actions.

**EXECUTIVE SUMMARY OF ITEM BACKGROUND****Background**

The City of San Diego currently occupies approximately 797,500 square feet of office space in five different buildings in the downtown area. Approximately 523,000 square feet is rented and another 273,000 square feet is owned by the City in the City Administration Building (CAB) and the City Operations Building (COB).

The five buildings range in age from 43 years to 53 years old and are occupied by an estimated 2,559 employees (full-time equivalent/FTE).

The following table identifies the size, age and occupancy of the five main buildings.

	OWNED		LEASED			TOTAL
	COB	CAB	CCP*	525 B St	Exec Comp	
<b>Est. FTEs</b>	355.00	426.00	805.00	514.00	459.00	2,559.00
<b>SF Occupied</b>	143,000	130,000	265,986	116,180	141,889	797,055
<b>Year Built</b>	1970	1965	1973	1969	1963	

\* Civic Center Plaza (CCP) is considered a leased building as ownership will not revert to the City until 2036.

A renewed interest in Downtown office space leasing, combined with a corresponding slow response in office building construction/availability in San Diego, has created a shrinking inventory of office space which continues to drive up leasing rates.

David Marino of HughesMarino<sup>1</sup> wrote in July 2016 "that \$5 per foot proposals have been trading at the Diamond View Tower and nearly every other Class A building has seen double digit growth". He continued in his analysis by adding, "Meanwhile, Class B buildings have slowly been filling, and there are no new buildings under construction. This spells lack of options and very high rents in the future."

The City's occupancy at 525 B Street is an example of these increasing rates. The current lease for 116,180 square feet of space is \$1.70 per square foot (PSF) and will expire in 2020. The City recently requested the ability to increase the occupancy by an additional 17,619 square feet to accommodate new staff for the Public Works Department. The new rates quoted by the landlord are proposed to increase approximately 40% from the current rate and will increase another 20% during the new term of the lease.<sup>2</sup> Under the best terms, this proposal would increase the annual lease payment by \$1.2 million by 2021. It is important to note that there are currently no other space options available to move the entire Public Works Department out of 525 B Street.

Therefore, controlling future office space occupancy expenses and resolving ever increasing deferred maintenance has led to the pursuit of long-term solutions for housing City staff. In 2015, the City took the first step in securing long-term control of office space by entering into a 20-year lease-to-own agreement for Civic Center Plaza (CCP) which provides for a fixed lease payment for the next 20 years. Staff estimates that the CCP lease-to-own agreement will save the City in excess of \$24 million vs. market rent over the same period.

<sup>1</sup> HughesMarino is a leading provider of tenant representation throughout California

<sup>2</sup> This new lease agreement is still being negotiated and will require approval by the City Council



With the continued increase in lease rates, the continuing decline in the condition and availability of currently occupied buildings and the increase in FTE counts to support the City's initiatives, the Real Estate Assets Department (READ) researched the availability of office space in the Downtown corridor with two goals

1. Identify an expansion and relocation solution for the Development Services Department (DSD), currently located in the COB<sup>3</sup>. In FY 2016 DSD issued approximately 65,000 construction permits which reflects an increase of 25,000 permits since FY 2013. This permit activity represents more than 100,000 plan reviews and more than 160,000 customer contacts at existing DSD offices. The increased workload and the associated increase in employees and customers has created insufficient capacity at COB. Presently, the downtown DSD operations are spread across 80 counters located in two buildings over six separate floors. Customers and employees, many times with large sets of plans, must often shuttle between multiple floors during the normal course of business.
2. Identify office space to accommodate employees that are currently located in other City occupied buildings.

#### LEASE-TO-OWN

During their due diligence, READ identified an option to relocate DSD into a nearby office building. This solution, however, would have required DSD customers to travel to different floors throughout the building and would not be conducive to the transformation efforts underway. Additionally, the proposed lease rates already reflected increased rates and would not allow the City to control long-term expenses.

While pursuing potential leases, READ staff was made aware of an opportunity to negotiate for ownership of 101 Ash Street.

101 Ash Street is the former headquarters building for Sempra Energy. The building has been primarily vacant since July 2015. It contains 21 stories and 315,545 square feet. READ estimates that it would be able to accommodate approximately 1,100 FTEs. The building is considered Class A (highest tier) office space due to the excellent condition of the interior finishes and the upgraded mechanical systems. The lease-to-own includes all office furnishings and modular office equipment, all of which is in good condition. The building features eight elevators, two more than buildings of this size normally contain, which can aid in the movement of customers and staff more efficiently. There are redundant energy systems and a back-up generator serving the building, preventing any loss of electrical service during black-outs or brown-outs. The building also contains 235 underground parking spaces.

While City staff was considering the viability of occupying 101 Ash Street, Cisterra, a local private developer, was also considering entering into an agreement to purchase 101 Ash Street from the current owners. The 101 Ash Street owners had approached the City in 2015 to gauge interest in either buying the building for \$100 million or entering into a lease-to-own agreement with similar terms. Cisterra was estimating a purchase price of \$72.5 million.

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<sup>3</sup> The City Operations Building has a deferred maintenance repair estimate of \$94 million to bring up to a service level of FCI = 20 (Good)



The City approached Cisterra regarding the potential to enter into a non-binding agreement with Cisterra to either assign the purchase rights for the estimated purchase price of \$72.5 million or sign a lease-to-own agreement with Cisterra. This arrangement was intended to secure rights to the building without entering into a bidding competition. Based on the original purchase and sale agreement signed between Cisterra, LLC and the current owners, it was determined that the feasibility of an assignment for purchase was unavailable. As a result, the City is now able to lease-to-own the building based upon Cisterra's purchase price of \$72.5 million dollars and will, once again, be able to control a greater proportion of office space expenses for the next 20 years and beyond. This action will result in an estimated 20 year savings of \$44 million to the City versus continuing to pay market rental rates.

The terms of the lease-to-own agreement include a beginning rental rate of approximately \$1.70 PSF/month with no annual increases. The City will be responsible for all operating expenses (including utility expenses, building management and maintenance and repair), which are estimated to be \$0.80/sf/mo or \$9.60 PSF/year. At any time after the 5<sup>th</sup> year, the City may opt to transfer the loan for \$1 to a City entity and continue making lease payments to that City entity, rather than to Cisterra. In addition, any time after the 5<sup>th</sup> year, the City may prepay the lease-to-own agreement and have the right and option to purchase the real property and improvements by paying an amount to Cisterra equal to the net present value of the remaining payments due under the lease-to-own agreement, using a discount rate calculated per a formula set forth in the lease-to-own agreement.

The start rate of \$1.70 PSF/month does include an estimated \$5 million in tenant improvements, allowing for renovation of all floors at 101 Ash Street. This will maximize space for the City to accommodate approximately 1,100 employees within the building, per the space standards identified in the City's Administrative Regulation 56 – *Work Space Requests*.

Per Exhibit B, the lease-to-own analysis attached here, this agreement will save the City more than \$44 million over 20 years when compared with continuing to lease EC and completing a lease at 110 Plaza for DSD (which would relocate them from COB).

#### **CONDITION OF 101 ASH STREET**

On March 10, 2016, a Property Condition Report (PCR) for 101 Ash Street was completed by Advantage Environmental Consultants, LLC, which stated that "The Site was observed to be in good condition. Evidence of on-going maintenance was observed." The previous occupant, Semptra Energy, was meticulous in their maintenance and care of the property over their several decades of occupancy. In fact, the PCR estimates that "this Site's estimated remaining useful life (ERUL) should be at least an additional 40 years barring any natural disasters." The PCR summarized that "AEC did not identify any obvious items of deferred routine maintenance that warrant mention" and their only recommendation for immediate repair was an amount of \$10,000 to clean, caulk and pressure wash the exterior of the building.

**WHAT HAPPENS TO THE CITY OPERATIONS BUILDING (COB)?**

Once the CCP project is completed in approximately FY 2022, the City will determine the best use of the property, including relocating Fire Station #1 and potentially redeveloping the site.

**WHAT HAPPENS IF NO ACTION TAKEN?**

The City will continue to be forced to pay market rates for future office rental space. There is no indication that prices will stabilize or decline in the next 5 to 8 years and could, in fact, increase by 50% or more. There is estimated savings of \$44 million over 20 years by occupying 101 Ash Street instead of existing or other market spaces.

City department operations will continue to be located throughout various buildings and City staff will be required to maintain operations in buildings that have documented deficiencies including plumbing and HVAC issues.

Cisterra's purchase price of \$72.5 million is equivalent to \$230 PSF. This is below market value based on recent comparable sales, however, an MAI appraisal performed by D.F. Davis Real Estate Inc, dated September 8, 2016, indicated the appraised value of 101 Ash Street to be \$67.1 million. By contrast, a broker opinion of value ("BOV") prepared by Jones Lang LaSalle, dated September 12, 2016, indicated a value of \$85.7 million.

There are several reasons for the difference in these two valuations:

1. The MAI appraised value of \$67.1 million did not include the existing furniture, fixtures & equipment which, has a value to the City in the \$2.2 million range because it reduces the need for the City to purchase furniture for the employees who will occupy 101 Ash Street. The furniture is excellent in quality and condition.
2. The appraised value per the MAI is a more conservative manner of valuing real estate because it considers purchase and lease deals done in the past, vs. looking to the anticipated future as the broker opinion of value does. As we are all aware, Downtown office lease rates have climbed steadily over the past three years and this is expected to continue into the future because of the lack of new supply in the Downtown market.
3. 101 Ash Street has a greater value to the City than to a third-party purchaser based upon its location proximate to the rest of the City's campus Downtown as indicated on Exhibit A, Site Map, attached here.

**BENEFITS OF APPROVING OF THESE REQUESTED ACTIONS**

1. Provide an estimated savings in occupancy expenses of over \$44 million in a 20-year period and allow the City to control its expenses at a time of record-breaking rent increases for the Downtown market.
2. Allow City operations to be centralized in one building vs. spread out into several buildings, thus providing for less wasted travel time between buildings for employees as well as improved service to the public.
3. Substantially improve working conditions for all affected City employees.
4. Increase accessibility and ease of flow for the public.

**CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S)**

Goal #1 Provide high quality public service

Objective #1 Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

Objective #2 Improve external and internal coordination and communication

Objective #3: Ensure equipment and technology are in place so that employees can achieve high quality public service.

Goal #2 Work in partnership with all of our communities to achieve safe and livable neighborhoods

Objective #3 Invest in infrastructure

**FISCAL CONSIDERATIONS**

The total cost of the 20 year lease-to-own would not exceed \$201,902,440. Lease-to-own of 101 Ash Street vs. continuing to lease from the market will result in savings estimated to exceed \$44 million over the next 20 years in occupancy costs.

Fiscal Year 2017 General Fund costs are estimated to be \$4,183,448.50 for the lease-to-own agreement between City and 101 Ash, LLC. This expense includes rent of \$2,673,633 and operating expenses of \$1,509,816.

**EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable)**

This agreement is subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708).

This agreement is subject to the City's Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

**PREVIOUS COUNCIL and/or COMMITTEE ACTIONS**

This item is requested to be placed on the agenda for the Smart Growth & Land Use Committee meeting on September 21, 2016.

**COMMUNITY PARTICIPATION AND OUTREACH EFFORTS**

AFSCME Local 127, DCAA, Local 145, MEA, POA and Teamsters Local 911 have been notified of this proposed action.

Approving this action will limit the City's exposure to increasing market leasing rates for 314,545 SF of its leased office space, leading to occupancy cost savings over the next 20 years of over \$44 million and will provide a means for the City to own 101 Ash Street at the end of the 20-year lease term. This will in turn allow the City to terminate its lease at Executive Complex.

Ronald H. Villa  
Deputy Chief Operating Officer  
Internal Operations

**Attachment(s):** Exhibit A -- Site Map  
Exhibit B -- Lease-to-own Analysis



EXHIBIT A

101 Ast St.

King-Chavez  
School

Civic Center Plaza

Parkade

City Operations  
Building

Civic Theater

Concourse  
Golden Hall

City Administration  
Building



А. И. БИЧУК

The City of San Diego  
70-Year Comparison of Downtown Leaseable Over 1/8 Leasing from Third Parties  
January 1, 2017 - June 30, 2037

**Last Updated:**

[illegible]

Advantage to City to lease-to-own vs. leading to third party: 562,416,563

SC	TOTAL DOLLAR COST OVER 20 YEARS	GENERAL PURPOSE EQUIPMENT	ENTERPRISE RESOURCE PLANNING	SERVICE AND SPECIAL REQUIREMENTS	PAYMENTS
114,545	3,307,000,000	1,215,809,527	574,500,469	516,673,637	236
300,898	2,926,412,954	3,168,869,538	516,673,637	516,673,637	236
1210.615	2,926,412,954	3,168,869,538	516,673,637	516,673,637	236

\* Note that 110 fluxus test assumes original CD agreement of \$1.0M with increases of \$0.05 per 100 mg of actual 110 fluxus (indicated by the percentage amount they paid for raising the CD's test from the CD to quality, signed due to) a primary market conditions.

**THE CITY OF SAN DIEGO**

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**OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

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**Date Issued:** October 12, 2016**IBA Report Number:** 16-34**City Council Docket Date:** October 17, 2016**Item Number:** TBD

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# **Review of 101 Ash Street Lease-to-Own Proposal**

## **OVERVIEW**

On September 21<sup>st</sup>, 2016, the Smart Growth and Land Use Committee heard and recommended approval of a report from City staff that recommended the City enter into a 20-year lease-to-own agreement for the former Semptra Building at 101 Ash Street with 101 West Ash, LLC, a subsidiary of Cisterra Development LLC (Cisterra). That item is now pending Council consideration on October 17<sup>th</sup>, 2016. This report provides a brief history of the City's efforts to acquire the property at 101 Ash Street, an overview of the proposed lease-to-own agreement, and a discussion of the overall impact to the City associated with entering into this agreement.

Should Council approve this item, Real Estate Assets Department (READ) staff contemplate relocating Development Services Department (DSD) staff, as well as City staff in other downtown locations, to 101 Ash Street. Entering into this 20-year lease-to-own agreement will insulate the City from the risks of rising rental costs for leased office space. It should be noted that projected savings associated with the agreement – estimated by READ at \$44.4 million over the 20-year term – rely on an estimated market rate for renting similar office space downtown. Additionally, we note that the lease-to-own agreement will result in less savings than purchasing the building outright would, though staff indicates that language in Cisterra's agreement to purchase the building from its current owner precludes the City from purchasing the building outright.

## **FISCAL/POLICY DISCUSSION**

### **History**

The former Semptra Building at 101 Ash Street is a 314,545 square foot office building built in 1968. It was occupied by San Diego Gas & Electric from 1968 through 1998, and by Semptra Energy from 1998 through 2015. After Semptra vacated the building in 2015, the building's

**OFFICE OF THE INDEPENDENT BUDGET ANALYST**  
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owners approached the City offering to sell the building to the City at a price of \$100 million. An appraisal conducted for the building estimates its value at \$67.1 million. Given the \$100 million sale price offered to the City, the City did not pursue negotiations to purchase the building directly from its current owner.

Concurrently, Cisterra began negotiations to purchase the building, and eventually entered into a purchase and sale agreement (PSA) to purchase the building for \$72.5 million. During Cisterra's negotiations to purchase the building, the City and Cisterra entered into a non-binding agreement that would allow the City to either:

- Purchase the building outright from its current owner by having Cisterra assign the PSA in its entirety to the City, allowing the City to issue bonds to finance building acquisition (with total estimated financing costs of \$110.6 million over 20 years); or
- Enter into a lease-to-own agreement with Cisterra that would transfer ownership of the building to the City after 20 years (with total rental costs of \$127.8 million over 20 years).

City staff initially recommended that the City pursue the option to purchase the building outright through assignment of Cisterra's PSA. However, upon examining the actual PSA between Cisterra and the building's current owner, City staff indicated that certain language included in the PSA could result in a legal challenge should Cisterra assign the PSA to the City. City staff therefore now recommend that the City enter into the proposed lease-to-own agreement.

### **Office Space Need and Alternatives**

READ has worked towards the City's goals of relocating DSD staff from the City Operations Building (COB) and expanding floor space for permit activity, and finding office space to accommodate employees that are current spread out among multiple different downtown office buildings. COB consists of 143,000 square feet of office space. The City additionally leases approximately 142,000 square feet of office space at the Executive Complex.

The City's lease at the Executive Complex currently costs \$1.28 per square foot per month, and expires on June 30<sup>th</sup>, 2019. READ indicates that the market rate of Executive Complex office space could increase to \$2.81 per square foot per month upon expiration of the existing lease in 2019. READ has investigated entering into a lease for 165,000 square feet of office space at 110 Plaza, and estimates that lease costs would total \$2.25 per square foot, and increase annually. READ estimates that total costs to continue renting office space at the Executive Complex and to lease new office space at 110 Plaza would total \$251.5 million over the next 20 years.<sup>1</sup>

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<sup>1</sup> This estimate assumes that the current market rate for office-space rentals is \$2.50 per square foot per month. As a point of comparison, the City's current lease for office space at 525 B Street is \$1.70 per square foot, though READ notes that this lease is due to expire in 2020, and the rate under a new lease may increase up to \$2.40 per square foot. If the City were able to negotiate rental rates below \$2.50 per square foot for space at Executive Complex and 110 Plaza, total costs here would decrease.



The proposed lease-to-own agreement for the 101 Ash Street building would provide sufficient space to replace the space at COB and the space that would potentially be leased at 110 Plaza. READ estimates total rent and operating costs under the lease-to-own agreement over its 20-year term total \$207.1 million, as is detailed below.

### **Proposed Lease-to-Own Agreement**

Staff is proposing that the City enter into a 20-year lease-to-own agreement with a subsidiary of Cisterra, at the conclusion of which ownership of the 101 Ash St building would be transferred to the City. Under the agreement, the City would pay Cisterra \$6.4 million annually,<sup>2</sup> and would assume responsibility for all capital improvements, operations, and building management. Cisterra would also provide \$5.0 million to the City to make tenant improvements to the building. Total rental costs over the 20-year term would be \$127.8 million, which represents the equivalent of paying a 5.5% interest rate.

READ staff indicates that an additional \$3.3 million in operating expenses would also be required each year.<sup>3</sup> Annual costs to lease, maintain, and occupy the building are expected to total \$9.7 million. Total costs over the 20-year term of the lease are estimated at \$207.1 million.

The lease-to-own agreement also includes provisions that allow the City to either (1) purchase the building outright from Cisterra after 5 years, upon making a payment equal to the net-present value of remaining payments using a discount rate no higher than 3.15%, or (2) purchase the building and Cisterra's associated debt for \$1. Unless interest rates on municipal bonds drop significantly in the next five years, or the City were to exercise one of these options without issuing debt, it is unlikely that either option would make financial sense for the city.<sup>4</sup>

Using READ's estimates of the cost to lease and occupy an equivalent amount of office space at the Executive Complex and 110 Plaza, this represents \$44.4 million in savings.

### **Cost Difference Between Purchasing Outright and Leasing-to-Own**

City staff originally contemplated purchasing the 101 Ash building outright instead of entering into the lease-to-own agreement with Cisterra. Because the City can generally issue bonds at lower interest rates than private entities, purchasing the building outright using bond financing would represent savings over the lease-to-own proposal.

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<sup>2</sup> This amount is based on rental costs of \$1.70 per square foot per month.

<sup>3</sup> Operating expenses are estimated to increase by 2.0% per year over the 20-year term of the lease.

<sup>4</sup> Because the first option requires payment of all remaining rental payments discounted by 3.15% or lower per year, and those rental payments are the equivalent of a 5.5% interest rate, bond interest rates would likely need to decrease to 2% or lower for this to option to generate savings. Potential savings in the second option would depend on the call provisions in Cisterra's bonds, but staff indicates that those provisions will likely preclude any opportunities to generate savings by refunding these bonds with the proceeds of newly issued City bonds.

City staff estimated that the City could purchase the building using 20-year bonds at a 3.25% interest rate. This would represent a total cost of \$110.6 million over 20 years, which is \$17.2 million lower than the \$127.8 million that will be paid under the lease-to-own agreement. The lease-to-own agreement effectively increases the City's financing costs from 3.25% to 5.5%. If the option to purchase the building outright was available, it would represent approximately \$61.6 million in total savings over leasing space at Executive Complex and 110 Plaza, as compared to the \$44.4 million in savings associated with the lease-to-own agreement.

Staff indicates that the option to purchase the building outright is unavailable due to certain language in the PSA between Cisterra and the building's current owner. Given the \$17.2 million difference in costs between purchasing the building outright and entering into the lease-to-own agreement, Council may wish to ask staff, Cisterra, and/or the building's current owner if there are any opportunities to have potentially problematic language in that PSA waived, which would not need to impact the building's sale price.

### **Short-Term Fiscal Impact of Proposed Measure**

Entering into the lease-to-own agreement would allow the City to have access to the building in January, 2017. Rent and operations costs for FY 2017 are expected to total \$4.2 million. \$2.3 million of this amount is expected to be borne by the City's General Fund, with the remainder coming from non-General Fund sources. This amount was not included in the City's FY 2017 Adopted Budget, and an adjustment to the budget will therefore be necessary.

While READ projects the proposed agreement represents cumulative 20-year savings of \$44.4 million over renting other office space, initial annual costs in FYs 2018 through 2020 are higher than the projected cost to rent alternate office space.<sup>5</sup> Total annual costs from FY 2021 on are projected to be lower under the lease-to-own agreement than continuing to rent alternate space.

## **CONCLUSION**

There are several advantages to owning the buildings and facilities in which City employees work. When facilities are owned, the City is not subject to market variations in rental rates or the potential for outside building owners to repurpose their buildings to other uses. Ownership can also allow more accurate forecasts of long-term costs, revenues, and staff capacity. It is important that the City carefully consider major real estate purchases and long-term agreements in order to ensure that the best interests of the City are protected.

Given the condition assessment, appraisal, and downtown office rental market assumptions made by staff, entering into the proposed lease-to-own with Cisterra does represent long-term savings, though the agreement will require additional funding in FY 2017 beyond what was included in the Adopted Budget. While the staff report estimates savings of \$44.4 million over the 20-year life of the agreement, we note that the actual amount of those savings is difficult to

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<sup>5</sup> Costs in FY 2018 are estimated to be \$2.5 million higher than renting alternate space, FY 2019 costs are \$2.0 million higher, and FY 2020 costs are \$2.1 million higher. Savings in FY 2021 are projected at \$505,000, and grow in each fiscal year thereafter.

quantify, given that it relies on an assumed \$2.50 per square foot per month market rental rate for alternate office spaces.

Should Council approve the proposed agreement, it should also request staff to identify funding for the additional \$4.2 million in rent and operating expenses required in FY 2017, and to identify future year rent, operations and maintenance needs, and funding sources. Council should also request staff to report back after five years in the (unlikely) event that interest rates decrease such that exercising either option in the lease-to-own agreement to take early possession of the building could generate savings.

As the lease-to-own agreement results in \$17.2 million less in savings than purchasing the building outright, Council may also wish to request additional clarification as to whether or not Cisterra and the building's current owner would be amenable to waiving the language in their PSA that makes a direct City purchase problematic.



Charles E. Modica, Jr.  
Fiscal & Policy Analyst



APPROVED: Andrea Tevlin  
Independent Budget Analyst

CITY OF SAN DIEGO  
ADMINISTRATIVE REGULATION

SUBJECT  WORK SPACE REQUESTS	Number 56.00	Issue 3	Page 1 of 6
	Effective Date July 1, 2012		

1. Purpose

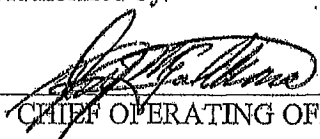
- 1.1 To establish a policy on the allocation of City work space.
- 1.2 To establish procedures to request work space.
- 1.3 To establish space standards for City work space.

2. Scope

- 1. This regulation applies to all City departments.
- 3. City Work Space: All City-owned and City-leased space where personnel conduct City business, including but not limited to space in office buildings, warehouses, trailers, and operations yards.

(Supersedes Administrative Regulation 56.00, Issue 2, effective April 1, 1998)

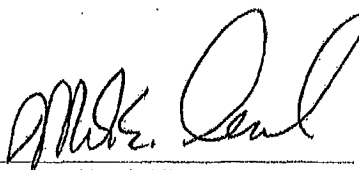
Authorized by:

  
CHIEF OPERATING OFFICER

  
CITY ATTORNEY

  
CITY CLERK

  
HUMAN RESOURCES

  
FINANCIAL  
MANAGEMENT

CITY OF SAN DIEGO  
ADMINISTRATIVE REGULATION

SUBJECT  WORK SPACE REQUESTS	Number 56.00	Issue 3	Page 2 of 6
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4. Responsibility

4.1 On behalf of the Mayor, the Real Estate Assets Director is responsible for:

- a. Equitable distribution of available workspace among City programs.
- b. Approving or denying departments' requests for work space from the prospective impact on the City's workspace portfolio.
- c. Amending work space standards when required to maximize the effective use of City workspace.

4.2 Financial Management

Approve or deny space request based on economic impact.

4.3 Real Estate Assets Department

- a. Review department requests for the changes to department's work space allocation.
- b. Assist City departments in the leased space acquisition process.
- c. Represent City in negotiations for the acquisition of commercial space.
- d. Prepares lease agreement documents.
- e. Prepares and routes Request for Council Action (1472) pertaining to leased space requests.
- f. Assist Departments in relocation planning.
- g. Liaison with landlord for tenant improvement work, and advise/assist departments on relocation procedures.
- h. Administer leases and monitors lessor compliance with lease agreements.
- i. Make determination for the disposition of departmental assigned space no longer required.

CITY OF SAN DIEGO  
ADMINISTRATIVE REGULATION

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4.4 City Departments

- a. Adhere to the procedures and guidelines contained within this regulation.
- b. Notify Real Estate Assets Department when allocated work space is no longer required.

5. Policy

- 5.1 City-owned work space is to be used to the greatest extent feasible and the leasing of space is to be discouraged except when it is in the best interest of the City.
- 5.2 Approval will be given to only those work space changes which are economical to the City, promote increased productivity by City employees and improve service to the public, or when necessary to comply with local, state, or federal law.
- 5.3 In instances where a department(s) has a need to acquire or share space occupied by another department(s), the terms of the arrangement need to be developed between the affected departments. The terms should address all the concerns to facilitate the proposed relocation. Typical concerns are: 1) who pays for the relocation-related costs; 2) who pays the rent of the new space and for how long; and 3) critical dates, including a proposed move schedule. The basic terms of the arrangement must accompany the initial request for space. READ will prepare a document for signature for all approved requests.

CITY OF SAN DIEGO  
ADMINISTRATIVE REGULATION

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- 5.4 Department requests for leased space for the coming fiscal year should be submitted for approval prior to submitting the fiscal year budget so that funding can be proposed and approved in the department's budget request.
- 5.5 To maintain as much consistency as possible throughout the City and to maximize the use of floor space, allocation of office space to individuals within departments will be accomplished according to Attachment 1 in this AR. Nonetheless, in determining work space allocation, the actual work being done based on the job responsibilities of each position and the space necessary to accomplish it, will be the primary determinant of space allocation.
- 5.6 Requests for exception to this regulation, including mid-year work space requests, should be addressed to the Chief Operating Officer for approval via the Asset Manager, Real Estate Assets Department, Corporate Services Division ("CSD").

6. Procedure by Responsible Department

Action

Initiating Department

1. Review this administrative regulation to assess space needed. Complete form at Attachment 3 as appropriate.
2. As space allocation is critical to both efficiency and quality of the work environment, departments will solicit employee input into this process.
3. Submit Space Request form signed by Department Director to Real Estate Assets Department to the attention of the Asset Manager, CSD. A short memo should accompany the request and should contain the following minimum information:
  - a. Business case for space request.
  - b. Description of space requirement.
  - c. Proposed funding for space.
  - d. Contact Person.

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Financial Management

1. Review request for financial and budget impact.
2. Approve, sign and return to READ with comments.

Real Estate Assets Department

1. Contact requesting department to acquire details for comprehensive analysis.
2. Conduct search for space; develop alternatives.
3. Inform Financial Management (FM) of budget/cost implications, and other pertinent information.
4. Upon approval of costs by FM meet with Contact Person assigned by Initiating Dept. to create budget and timeline.
5. For space in existing owned or leased buildings, READ provides Contact Person with appropriate building/City approved vendor names and numbers for all aspects of the move and/or reconfiguration.
6. For acquisition of new space READ may engage a real estate broker to negotiate lease or purchase and sale agreement and provide oversight for any tenant improvements.
7. READ is responsible for preparing and routing Request for Council Action (1472), as required.

7. Office Space Guidelines

- 7.1 Workplace Standards - Attachment 1 is taken from a study by Gensler Architects and provides square footage allocations by space type that bring the City's workspace guidelines in line with current standards across the public and private sectors. A sample allocation table showing how the six types of spaces were allocated under the existing City structure is provided to illustrate the application of the guidelines.

The sample allocation tables will be updated by READ to reflect any reorganization in the



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City's departmental structure over time and will be available upon request.

7.2 Type Office Space

- a. Private Offices: A fully enclosed area with floor-to-ceiling walls.
- b. Open Office Space: Open office space has no fixed partitions and is easily reconfigured.

Administering Department

Real Estate Assets Department

Attachments

- 1 - Workplace Standards
- 2 - Office Space Requests (Diagram)
- 3 - Office Space Questionnaire

## Attachment 1

# New Workplace Standards

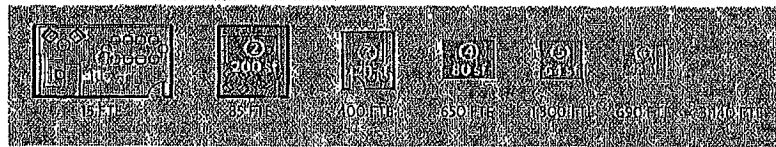
Recommended Allocations (for planning purposes only):

### Three Private Office Sizes

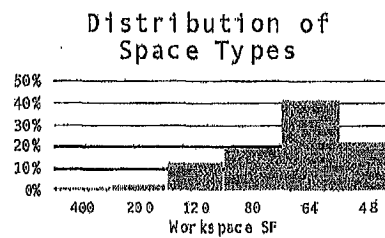
1. 400 USF Private Offices for senior executives and elected officials
2. 200 USF Private Offices for senior management staff
3. 120 USF Private Offices for staff requiring confidentiality

### Three Open Office Sizes

4. 80 USF Workstations for staff requiring large layout space
5. 64 USF Workstations for most technical and administrative staff
6. 48 USF Workstations for clerical staff and field staff



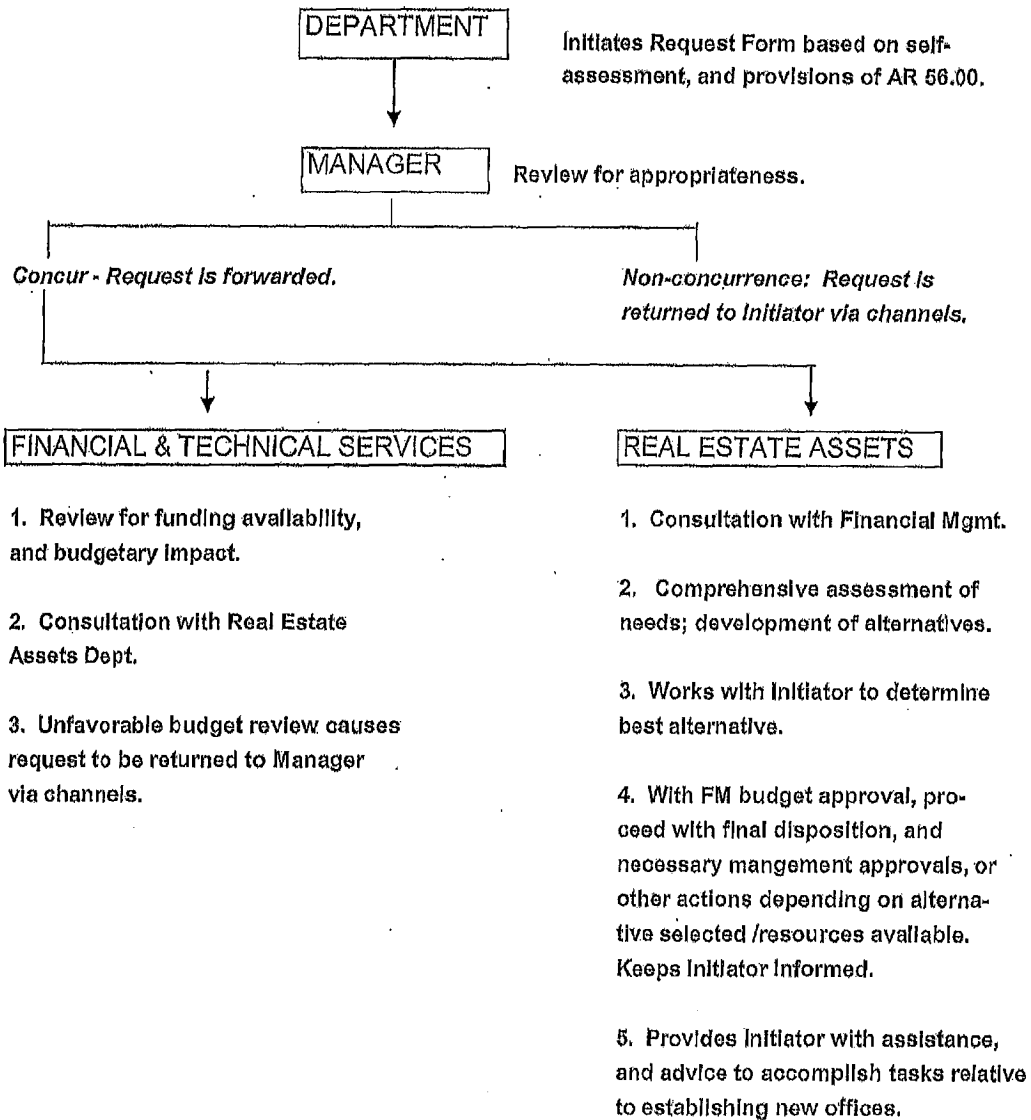
Space is allocated based upon what people do instead of their title.



Gensler

## Attachment 2

### PROCESS FOR OFFICE SPACE REQUESTS



### Attachment 3

#### WORK SPACE REQUEST

To:	Real Estate Assets Department, Corporate Services Division
From:	(Dept. Name)
Request:	Check all that apply: Construction: ____ Additional Space: ____ Department Move: ____ Reconfigure: ____ Maintenance/Improvements: ____
Requirements:	
Budgeted Amount for Move/Construction:	\$ _____
Department Contact:	Name: Phone: Email:
FM Department Liaison:	Name: Phone: Email:
Authorized Dept. Signature:	Name: Title: Signature:
Cost Analysis by READ:	\$ _____ Attach detail and route to FM Dept. Liaison
Authorized FM Signatures for Approval and route to READ	Name: Title: Signature: Date:
READ Signature for Approval:	Name, Title: Signature: Date:

Citywide

101 Ash Improvements / S17009

Bldg - Operations Facility / Structures

<b>Council District:</b>	2	<b>Priority Score:</b>	58
<b>Community Planning:</b>	Centre City	<b>Priority Category:</b>	Low
<b>Project Status:</b>	New	<b>Contact Information:</b>	Grani, Jason
<b>Duration:</b>	2017 - 2020		619-533-7525
<b>Improvement Type:</b>	Betterment		jgrani@sandiego.gov

**Description:** This project provides for the architectural, electrical, plumbing and mechanical tenant improvements to basements and 19 floors of 101 Ash Street for office space for multiple City Departments.

**Justification:** These tenant improvements are needed to accommodate the office space requirements for Development Services, Transportation & Storm Water, Information Technology, ADA Compliance, Commission for Arts and Culture, Office of the City Auditor, Performance & Analytics, Public Works, Office of Homeland Security, Planning, Communications, and San Diego Fire-Rescue departments.

**Operating Budget Impact:** None.

**Relationship to General and Community Plans:** This project is consistent with the Centre City Community Plan and is in conformance with the City's General Plan.

**Schedule:** Project is scheduled to be completed by Fiscal Year 2019, with a warranty period in Fiscal Year 2020.

**Summary of Project Changes:** This is a newly published project for Fiscal Year 2018. The total project costs have not yet been determined.

Expenditure by Funding Source

Fund Name	Fund No	Exp/Enc	Con Appn	FY 2018	FY 2018 Anticipated	FY 2019	FY 2020	FY 2021	FY 2022	Future FY	Unidentified Funding	Project Total
101 Ash Facility Improvements	400866	\$ 199,666	\$ 4,800,333	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000,000
<b>Total</b>		<b>\$ 199,666</b>	<b>\$ 4,800,333</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,000,000</b>

May 17, 2018 staff report  
101 Ash Street Building Lease and Proposed Tenant Improvements

**EXHIBIT D**  
ATTACHMENT F:

# 101 Ash Street Comparative Estimated Costing

# ESTIMATE

## Estimated Tenant Improvements and Operating Costs

Scenario 1 - No Tenant Improvements, move in as is. No one-stop for DSD, additional space needed for 493 DSD employees

Scenario 2 - Tenant Improvements on 1st floor - for one-stop DSD, additional space needed for 336 employees

Scenario 3 - Tenant improvements on floors 1, 2 and top 3, including one-stop DSD, additional space needed for 202 employees

Scenario 4 - Maximize use of space as proposed in recent bids

Cost	Scenario 1	Scenario 2	Scenario 3	Scenario 4
3rd Party Review of Design	\$ 59,368	\$ 59,368	\$ 59,368	\$ 59,368
Existing Contracts	250,171	250,171	250,171	250,171
Project-to-Date Cost (5/14/18)	1,010,314	1,010,314	1,010,314	1,010,314
<b>Costs Before Scenario planning</b>	<b>1,319,853</b>	<b>1,319,853</b>	<b>1,319,853</b>	<b>1,319,853</b>
Building Access Control Upgrades	300,000	300,000	300,000	300,000
IT Fiber Optics into 101	275,376	275,376	275,376	275,376
IT Assessment	693,254	733,254	893,254	1,000,000
Additional City Soft Costs	39,600	265,460	645,880	772,800
Painting & Carpet Cleaning (IOC contractor)	132,000	150,000	211,000	-
Additional Gensler Space Planning	45,000	55,000	35,000	-
Redesign Plans and Permitting	-	50,000	38,000	-
Projected Construction Cost (Interior ADA Incl.)	-	2,336,800	8,366,328	18,400,000
Sidewalk ADA Improvements	-	250,000	250,000	250,000
Environmental Monitoring Consultant	-	20,665	103,323	247,975
Modular - 1st Floor	-	840,449	840,449	840,449
Modular - 2, 17, 18, 19	-	-	769,165	769,165
Modular - Remaining Floors	-	-	-	958,256
<b>Total Before Contingency, Financing and Moving</b>	<b>\$ 2,805,083</b>	<b>\$ 6,596,857</b>	<b>\$ 14,047,628</b>	<b>\$ 25,133,874</b>
Contingency 10%	280,508	659,686	1,404,763	2,513,387
<b>Capital Costs</b>	<b>\$ 3,085,591</b>	<b>\$ 7,256,543</b>	<b>\$ 15,452,391</b>	<b>\$ 27,647,261</b>
Financing Costs				
(\$0, \$2 Million, \$5 Million, \$12 Million)*	-	91,667	1,492,767	3,582,641
Move in @ \$5 sq. ft. (302,192)	1,510,960	1,510,960	1,510,960	1,510,960
<b>Project and Moving Costs</b>	<b>\$ 4,596,551</b>	<b>\$ 8,859,170</b>	<b>\$ 18,456,118</b>	<b>\$ 32,740,862</b>
<b>Outside Leasing Costs</b>				
Outside Lease Costs from displaced Employees				
Incurred before completion of Scenario 4				
(2 months, 7 months, 7 months)	739,500	1,764,000	1,060,500	-
Outside Lease cost over 10 years for displaced employees after completion of Scenario 4 (See Lease Section Below)	50,865,233	34,666,771	20,841,333	-
<b>Total Cost of ownership over 10 years</b>	<b>56,201,284</b>	<b>45,289,941</b>	<b>40,357,950</b>	<b>32,740,862</b>

\* Assumes \$2 million scenario is not converted to long-term debt, all others are converted after 2 years into 15 year bonds and paid for with DSD revenue.

## Lease Costs and Assumptions

Additional Rent for Displaced Employees				
Displaced Employees*	493	336	202	-
Average Annual Rent over 20 year period**	5,961,193	4,062,801	2,442,517	-
* Scenario 1 assumes DSD grows from 448 employees to 493, Scenario 4 assumes DSD expands to 516 employees				
** Assumes 250 sq. ft per employee at \$3 per month with 3% annual increase				
Cumulative Total Costs - Tenant Improvements + Additional Rent (in 5 year increments)				
1	9,773,051	13,647,170	21,334,618	32,740,862
5	28,892,687	26,677,996	29,168,627	32,740,862
10	56,201,284	45,289,941	40,357,950	32,740,862
15	87,859,432	66,866,285	53,329,443	32,740,862
20	124,559,903	91,879,182	68,366,959	32,740,862

Difference compared to Scenario 4				
1	(22,967,811)	(19,093,693)	(11,406,245)	
5	(3,848,176)	(6,062,866)	(3,572,236)	
10	23,460,421	12,549,078	7,617,088	
15	55,118,570	34,125,423	20,588,581	
20	91,819,041	59,138,320	35,626,096	
<b>Average annual cost over 20 years</b>	<b>6,227,995</b>	<b>4,593,959</b>	<b>3,418,348</b>	<b>1,637,043</b>

**COMMERCIAL REAL ESTATE SERVICES**

Matt Carlson  
Senior Vice President  
Lic. 01459868

CBRE, Inc.  
Advisory & Transaction Services

**CBRE**

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[matt.carlson@cbre.com](mailto:matt.carlson@cbre.com)  
[www.cbre.com](http://www.cbre.com)

May 16, 2018

**RE: 101 ASH STREET COMPARATIVE COST ANALYSIS**

Dear Cybele,

I have reviewed the 101 Ash Comparative Costs analysis that you shared on May 11, 2018. The analysis articulates four (4) different occupancy options for the building at 101 Ash Street. Based on that review, please see the following observations for your consideration:

- The City of San Diego, like other large office occupiers, is focused on maximizing the efficiency of spaces in their real estate portfolio.
- It is more cost effective for office occupiers to invest their own tenant improvements into a property they own, rather than a property they are leasing.
- The market leasing assumptions in the analysis for third party leases for any displaced employees are reasonable given current conditions in the market. These include a start rent of \$3.00/sf/month with 3% annual increases (an assumption of 250 sf. ft. of space per employee). This rent assumption is especially defensible given the fact that it does not include operating expense pass throughs or potential tenant improvement overages.

Thank you for the opportunity to provide this information to the City of San Diego. Please call me with any further questions.

Sincerely,

CBRE, Inc.

  
Matt Carlson  
Senior Vice President  
+1 858 546 2636

## Real Estate Assets

### 101 Ash Improvements / S17009

**Council District:** 3  
**Community Planning:** Centre City  
**Project Status:** Continuing  
**Duration:** 2017 - 2020  
**Improvement Type:** Betterment

### Bldg - Operations Facility / Structures

**Priority Score:** 80  
**Priority Category:** Medium  
**Contact Information:** Grani, Jason  
 619-533-7525  
 jgrani@sandiego.gov

**Description:** This project provides for the architectural, electrical, plumbing, asbestos mitigation and mechanical tenant improvements to 101 Ash Street for multiple City Departments, including tenants of the City Operations Building and former tenants of 1010 2nd Ave Building. Improvements will increase building's occupancy and bring the building into compliance with current Americans With Disabilities Act (ADA) standards.

**Justification:** These tenant improvements are needed to increase the occupancy of the building up to 356 employees. Possible scenarios include a development permit center on the first floor and up to 18 floors of tenant improvements to accommodate several City Departments. These improvements will provide the needed office space employees that were displaced from the 1010 2nd Ave Building along with Development Services staff from the City Operations Building, which has more than \$90 million in deferred maintenance.

**Operating Budget Impact:** One-time moving expenses have been included in the Fiscal Year 2019 Operating Budget.

**Relationship to General and Community Plans:** This project is consistent with the Centre City Community Plan and is in conformance with the City's General Plan.

**Schedule:** Design was completed in Fiscal Year 2018, with construction expected to start in Fiscal Year 2019 and be complete by Fiscal Year 2020.

**Summary of Project Changes:** Project total costs have been updated to up to \$27.6 million based on the completion of design, for the most extensive tenant improvements scenario. Budget is anticipated to be requested in the latter half of Fiscal Year 2018.

### Expenditure by Funding Source

Fund Name	Fund No	Exp/Enc	Con Appn	FY 2019	FY 2019 Anticipated	FY 2020	FY 2021	FY 2022	FY 2023	Future FY	Unidentified Funding	Project Total
101 Ash Facility Improvements	400866	\$ 1,025,398	\$ 3,974,601	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000,000
Capital Outlay Fund	400002	-	-	-	9,517,649	-	-	-	-	-	-	9,517,649
CIP Contributions from General Fund	400265	-	-	-	3,596,541	-	-	-	-	-	-	3,596,541
Energy Conservation Program Fund	200224	-	-	-	-	-	-	-	-	-	-	-
Facilities Financing Fund	200001	-	-	-	71,975	-	-	-	-	-	-	71,975
Financing	9300	-	-	-	9,461,096	-	-	-	-	-	-	9,461,096
Local Enforcement Agency Fund	200226	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>\$ 1,025,398</b>	<b>\$ 3,974,601</b>	<b>\$ -</b>	<b>22,647,261</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 27,647,261</b>



EXHIBIT B

SCENARIO 1 - ASSUMES TI OVERAGE OF \$0, BASED UPON TI COST OF \$9,085,981.14 AND 90 HR/WK CONSTRUCTION SCHEDULE AND OCCUPY BY NOVEMBER 2019

Advantage to City to lease-to-own vs leasing to third party over 26 years: (\$50,213,001)

The City of San Diego  
20-Year Comparison of Downtown Lease-to-Own Vs. Leasing from Third Parties  
January 1, 2017 - June 30, 2037

Last Updated: 5/16/2016

Assumptions:

Market Rent	\$1.83	\$2.01	\$2.00	\$2.09	\$2.18	\$2.28	\$2.38	\$2.48	\$2.58	\$2.69	\$2.80	\$2.91	\$3.03	\$3.15	\$3.28	\$3.41	\$3.54	\$3.67	\$3.81	\$3.96	\$4.11
Market Expenses	\$12.00	\$12.24	\$12.48	\$12.73	\$12.99	\$13.25	\$13.51	\$13.78	\$14.06	\$14.34	\$14.63	\$14.92	\$15.22	\$15.52	\$15.83	\$16.15	\$16.47	\$16.80	\$17.14	\$17.48	\$17.83
Expenses without Prop. Tax	\$9.50	\$9.79	\$9.99	\$10.19	\$10.39	\$10.60	\$10.81	\$11.03	\$11.25	\$11.47	\$11.70	\$11.94	\$12.18	\$12.42	\$12.67	\$12.92	\$13.18	\$13.44	\$13.71	\$13.99	\$14.27
Monthly Market Parking Rate	\$175	\$180	\$186	\$191	\$197	\$203	\$209	\$215	\$222	\$228	\$235	\$242	\$250	\$257	\$265	\$273	\$281	\$289	\$296	\$307	\$316
Rent Growth Rate	2.00%																				
Expense Growth Rate	2.00%																				

Fiscal Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
<b>20 YEAR LEASE-TO-OWN SCENARIO WITH CISTERA</b>																					
101 Ash Street	\$14,545																				
Rent (\$1.70/sf/mo MIN)	\$1.70	\$2,006,339	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718
Operating Expenses		\$1,500,816	\$9,080,025	\$9,141,625	\$9,204,458	\$9,268,547	\$9,333,918	\$9,400,596	\$9,468,608	\$9,537,980	\$9,608,740	\$9,680,915	\$9,754,635	\$9,829,924	\$9,906,216	\$9,984,340	\$10,064,027	\$10,145,508	\$10,228,234	\$10,312,778	\$10,399,094
Moving Expenses		\$0	\$0	\$1,510,860	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Ti Coverage (above \$8/sf)		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debit Fin. Exp.		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
EC Rent from 1/1/17-2/28/18	141,888	\$1,039,700	\$1,498,817	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
EC Expenses from 1/1/17-2/28/18		\$31,060	\$36,808	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Rent from CSD - 1/1/17-2/11/19		\$330,198	\$590,385	\$660,825	\$110,054	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Expenses from CSD - 1/1/17-2/11/19		\$236,772	\$463,013	\$492,675	\$83,755	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Expenses from Q1 red. by		\$0	\$0	\$0	\$167,510	\$48,568	\$44,441	\$22,865	\$28,112	\$28,580	\$24,052	\$24,593	\$25,024	\$25,324	\$26,055	\$26,535	\$27,086	\$27,622	\$28,151	\$28,744	\$29,319
450 B St Rent (Ethics) - 8 FTEs		\$2.95	\$0	\$26,505	\$95,638	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
600 B St Rent (Auditors/Fin) - 37 FTE		\$3.10	\$0	\$139,240	\$417,719	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Rent for Displaced Employees		493	\$0	\$0	\$0	\$4,189,268	\$4,707,215	\$4,848,490	\$4,999,883	\$5,143,899	\$5,298,010	\$5,456,950	\$5,620,659	\$5,789,279	\$5,962,957	\$6,141,846	\$6,326,101	\$6,515,884	\$6,711,361	\$6,912,701	\$7,120,082
Additional Parking (235 spaces)		295	\$0	\$0	\$892,646	\$659,261	\$558,430	\$472,101	\$399,265	\$340,349	\$293,151	\$249,906	\$209,223	\$169,818	\$130,612	\$91,721	\$54,463	\$20,857	\$791,923	\$825,580	\$840,131
Total Occupancy Costs		\$930,655,795	\$6,425,919	\$17,395,058	\$19,092,884	\$14,711,092	\$14,391,486	\$15,715,808	\$15,423,120	\$15,055,085	\$15,301,240	\$16,150,766	\$16,408,047	\$16,668,679	\$16,938,438	\$17,219,836	\$17,500,178	\$17,792,573	\$18,095,937	\$18,401,494	\$18,718,474
<b>100% OUTSIDE LEASE SCENARIO</b>																					
Outside Leased Space		314,545																			
Rent		\$0	\$0	\$0	\$0	\$0,747,486	\$12,015,278	\$12,373,635	\$12,744,834	\$13,127,179	\$13,520,994	\$13,926,624	\$14,344,423	\$14,774,756	\$15,217,998	\$15,674,538	\$16,144,774	\$16,629,118	\$17,127,991	\$17,641,831	\$18,171,086
Parking (235 spaces)		295	\$0	\$0	\$0	\$404,446	\$555,439	\$772,102	\$589,265	\$806,943	\$675,151	\$643,006	\$668,223	\$683,110	\$703,613	\$724,771	\$746,469	\$768,857	\$791,823	\$815,680	\$840,131
Operating Expenses		\$0	\$0	\$0	\$0	\$0	\$158,052	\$240,866	\$328,714	\$408,726	\$485,464	\$569,893	\$674,112	\$786,135	\$889,998	\$959,739	\$0	\$89,609	\$201,709	\$304,842	\$410,547
Total Occupancy Costs		\$280,342,765	\$0	\$0	\$0	\$0	\$1,111,942	\$12,727,229	\$13,186,098	\$13,657,813	\$14,147,856	\$14,641,588	\$15,154,423	\$15,681,758	\$16,224,010	\$16,781,608	\$17,354,988	\$16,261,238	\$17,497,583	\$18,121,123	\$18,767,359

COMPARISON OF 2 AVAILABLE SCENARIOS - NOTE THAT % ALLOCATION TO EACH DEPARTMENT IS ESTIMATED						
	SF	TOTAL OCC. COST OVER 20 YEARS	OCC. COST TO GENERAL FUND (44.5%)	OCC. COST TO ENTERPRISE FUND (55.5%)	OCC. COST TO REVENUE FUNDS *** (14.0%)	PARKING
101 Ash Street Lease-to-Own	314,545	\$930,655,795	\$147,141,816	\$197,222,148	\$46,291,807	295
100% Outside Lease	314,545	\$280,342,765	\$114,732,321	\$116,342,248	\$58,247,867	295

\*\*\* Includes IT (Fund 200508), Facilities Finance (Fund 200001), and LEA (Fund 200226) which would relocate from Executive Complex to 101 Ash Street. Actual allocations will vary based on amount of square footage occupied each year.

The City of San Diego

20-Year Comparison of Downtown Lease-to-Own Vs. Leasing from Third Parties  
January 1, 2017 - June 30, 2037

**Last Updated:**

5762019

Advantage to City to lease-to-own vs leasing to third party (521,048,089)  
over 20 years:

[illegible]

Fiscal Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037

## 20 YEAR LEASE-TO-OWN SCENARIO WITH CISTERRA

Item		12/1/20		12/1/21		12/1/22		12/1/23		12/1/24		12/1/25		12/1/26		12/1/27		12/1/28		12/1/29		12/1/30		12/1/31		12/1/32		12/1/33		12/1/34		12/1/35		12/1/36		12/1/37		12/1/38		12/1/39		12/1/40		12/1/41		12/1/42		12/1/43		12/1/44		12/1/45		12/1/46		12/1/47		12/1/48		12/1/49		12/1/50		12/1/51		12/1/52		12/1/53		12/1/54		12/1/55		12/1/56		12/1/57		12/1/58		12/1/59		12/1/60		12/1/61		12/1/62		12/1/63		12/1/64		12/1/65		12/1/66		12/1/67		12/1/68		12/1/69		12/1/70		12/1/71		12/1/72		12/1/73		12/1/74		12/1/75		12/1/76		12/1/77		12/1/78		12/1/79		12/1/80		12/1/81		12/1/82		12/1/83		12/1/84		12/1/85		12/1/86		12/1/87		12/1/88		12/1/89		12/1/90		12/1/91		12/1/92		12/1/93		12/1/94		12/1/95		12/1/96		12/1/97		12/1/98		12/1/99		12/1/100		12/1/101		12/1/102		12/1/103		12/1/104		12/1/105		12/1/106		12/1/107		12/1/108		12/1/109		12/1/110		12/1/111		12/1/112		12/1/113		12/1/114		12/1/115		12/1/116		12/1/117		12/1/118		12/1/119		12/1/120		12/1/121		12/1/122		12/1/123		12/1/124		12/1/125		12/1/126		12/1/127		12/1/128		12/1/129		12/1/130		12/1/131		12/1/132		12/1/133		12/1/134		12/1/135		12/1/136		12/1/137		12/1/138		12/1/139		12/1/140		12/1/141		12/1/142		12/1/143		12/1/144		12/1/145		12/1/146		12/1/147		12/1/148		12/1/149		12/1/150		12/1/151		12/1/152		12/1/153		12/1/154		12/1/155		12/1/156		12/1/157		12/1/158		12/1/159		12/1/160		12/1/161		12/1/162		12/1/163		12/1/164		12/1/165		12/1/166		12/1/167		12/1/168		12/1/169		12/1/170		12/1/171		12/1/172		12/1/173		12/1/174		12/1/175		12/1/176		12/1/177		12/1/178		12/1/179		12/1/180		12/1/181		12/1/182		12/1/183		12/1/184		12/1/185		12/1/186		12/1/187		12/1/188		12/1/189		12/1/190		12/1/191		12/1/192		12/1/193		12/1/194		12/1/195		12/1/196		12/1/197		12/1/198		12/1/199		12/1/200		12/1/201		12/1/202		12/1/203		12/1/204		12/1/205		12/1/206		12/1/207		12/1/208		12/1/209		12/1/210		12/1/211		12/1/212		12/1/213		12/1/214		12/1/215		12/1/216		12/1/217		12/1/218		12/1/219		12/1/220		12/1/221		12/1/222		12/1/223		12/1/224		12/1/225		12/1/226		12/1/227		12/1/228		12/1/229		12/1/230		12/1/231		12/1/232		12/1/233		12/1/234		12/1/235		12/1/236		12/1/237		12/1/238		12/1/239		12/1/240		12/1/241		12/1/242		12/1/243		12/1/244		12/1/245		12/1/246		12/1/247		12/1/248		12/1/249		12/1/250		12/1/251		12/1/252		12/1/253		12/1/254		12/1/255		12/1/256		12/1/257		12/1/258		12/1/259		12/1/260		12/1/261		12/1/262		12/1/263		12/1/264		12/1/265		12/1/266		12/1/267		12/1/268		12/1/269		12/1/270		12/1/271		12/1/272		12/1/273		12/1/274		12/1/275		12/1/276		12/1/277		12/1/278		12/1/279		12/1/280		12/1/281		12/1/282		12/1/283		12/1/284		12/1/285		12/1/286		12/1/287		12/1/288		12/1/289		12/1/290		12/1/291		12/1/292		12/1/293		12/1/294		12/1/295		12/1/296		12/1/297		12/1/298		12/1/299		12/1/300		12/1/301		12/1/302		12/1/303		12/1/304		12/1/305		12/1/306		12/1/307		12/1/308		12/1/309		12/1/310		12/1/311		12/1/312		12/1/313		12/1/314		12/1/315		12/1/316		12/1/317		12/1/318		12/1/319		12/1/320		12/1/321		12/1/322		12/1/323		12/1/324		12/1/325		12/1/326		12/1/327		12/1/328		12/1/329		12/1/330		12/1/331		12/1/332		12/1/333		12/1/334		12/1/335		12/1/336		12/1/337		12/1/338		12/1/339		12/1/340		12/1/341		12/1/342		12/1/343		12/1/344		12/1/345		12/1/346		12/1/347		12/1/348		12/1/349		12/1/350		12/1/351		12/1/352		12/1/353		12/1/354		12/1/355		12/1/356		12/1/357		12/1/358		12/1/359		12/1/360		12/1/361		12/1/362		12/1/363		12/1/364		12/1/365		12/1/366		12/1/367		12/1/368		12/1/369		12/1/370		12/1/371		12/1/372		12/1/373		12/1/374		12/1/375		12/1/376		12/1/377		12/1/378		12/1/379		12/1/380		12/1/381		12/1/382		12/1/383		12/1/384		12/1/385		12/1/386		12/1/387		12/1/388		12/1/389		12/1/390		12/1/391		12/1/392		12/1/393		12/1/394		12/1/395		12/1/396		12/1/397		12/1/398		12/1/399		12/1/400		12/1/401		12/1/402		12/1/403		12/1/404		12/1/405		12/1/406		12/1/407		12/1/408		12/1/409		12/1/410		12/1/411		12/1/412		12/1/413		12/1/414		12/1/415		12/1/416		12/1/417		12/1/418		12/1/419		12/1/420		12/1/421		12/1/422		12/1/423		12/1/424		12/1/425		12/1/426		12/1/427		12/1/428		12/1/429		12/1/430		12/1/431		12/1/432		12/1/433		12/1/434		12/1/435		12/1/436		12/1/437		12/1/438		12/1/439		12/1/440		12/1/441		12/1/442		12/1/443		12/1/444		12/1/445		12/1/446		12/1/447		12/1/448		12/1/449		12/1/450		12/1/451		12/1/452		12/1/453		12/1/454		12/1/455		12/1/456		12/1/457		12/1/458		12/1/459		12/1/460		12/1/461		12/1/462		12/1/463		12/1/464		12/1/465		12/1/466		12/1/467		12/1/468		12/1/469		12/1/470		12/1/471		12/1/472		12/1/473		12/1/474		12/1/475		12/1/476		12/1/477		12/1/478		12/1/479		12/1/480		12/1/481		12/1/482		12/1/483		12/1/484		12/1/485		12/1/486		12/1/487		12/1/488		12/1/489		12/1/490		12/1/491		12/1/492		12/1/493		12/1/494		12/1/495		12/1/496		12/1/497		12/1/498		12/1/499		12/1/500		12/1/501		12/1/502		12/1/503		12/1/504		12/1/505		12/1/506		12/1/507		12/1/508		12/1/509		12/1/510		12/1/511		12/1/512		12/1/513		12/1/514		12/1/515		12/1/516		12/1/517		12/1/518		12/1/519		12/1/520		12/1/521		12/1/522		12/1/523		12/1/524		12/1/525		12/1/526		12/1/527		12/1/528		12/1/529		12/1/530		12/1/531		12/1/532		12/1/533		12/1/534		12/1/535		12/1/536		12/1/537		12/1/538		12/1/539		12/1/540		12/1/541		12/1/542		12/1/543		12/1/544		12/1/545		12/1/546		12/1/547		12/1/548		12/1/549		12/1/550		12/1/551		12/1/552		12/1/553		12/1/554		12/1/555		12/1/556		12/1/557		12/1/558		12/1/559		12/1/560		12/1/561		12/1/562		12/1/563		12/1/564		12/1/565		12/1/566		12/1/567		12/1/568		12/1/569		12/1/570		12/1/571		12/1/572		12/1/573		12/1/574		12/1/575		12/1/576		12/1/577		12/1/578		12/1/579		12/1/580		12/1/581		12/1/582		12/1/583		12/1/584		12/1/585		12/1/586		12/1/587		12/1/588		12/1/589		12/1/590		12/1/591		12/1/592		12/1/593		12/1/594		12/1/595		12/1/596		12/1/597		12/1/598		12/1/599		12/1/600		12/1/601		12/1/602		12/1/603		12/1/604		12/1/605		12/1/606		12/1/607		12/1/608		12/1/609		12/1/610		12/1/611		12/1/612		12/1/613		12/1/614		12/1/615		12/1/616		12/1/617		12/1/618		12/1/619		12/1/620		12/1/621		12/1/622		12/1/623		12/1/624		12/1/625		12/1/626		12/1/627		12/1/628		12/1/629		12/1/630		12/1/631		12/1/632		12/1/633		12/1/634		12/1/635		12/1/636		12/1/637		12/1/638		12/1/639		12/1/640		12/1/641		12/1/642		12/1/643		12/1/644		12/1/645		12/1/646		12/1/647		12/1/648		12/1/649		12/1/650		12/1/651		12/1/652		12/1/653		12/1/654		12/1/655		12/1/656		12/1/657		12/1/658		12/1/659		12/1/660		12/1/661		12/1/662		12/1/663		12/1/664		12/1/665		12/1/666		12/1/667		12/1/668		12/1/669		12/1/670		12/1/671		12/1/672		12/1/673		12/1/674		12/1/675		12/1/676		12/1/677		12/1/678		12/1/679		12/1/680		12/1/681		12/1/682		12/1/683		12/1/684		12/1/685		12/1/686		12/1/687		12/1/688		12/1/689		12/1/690		12/1/691		12/1/692		12/1/693		12/1/694		12/1/695		12/1/696		12/1/697		12/1/698		12/1/699		12/1/700		12/1/701		12/1/702		12/1/703		12/1/704		12/1/705		12/1/706		12/1/707		12/1/708		12/1/709		12/1/710		12/1/711		12/1/712		12/1/713		12/1/714		12/1/715		12/1/716		12/1/717		12/1/718		12/1/719		12/1/720		12/1/721		12/1/722		12/1/723		12/1/724		12/1/725		12/1/726		12/1/727		12/1/728		12/1/729		12/1/730		12/1/731		12/1/732		12/1/733		12/1/734		12/1/735		12/1/736		12/1/737		12/1/738		12/1/739		12/1/740		12/1/741		12/1/742		12/1/743		12/1/744		12/1/745		12/1/746		12/1/747		12/1/748		12/1/749		12/1/750		12/1/751		12/1/752		12/1/753		12/1/754		12/1/755		12/1/756		12/1/757		12/1/758		12/1/759		12/1/760		12/1/761		12/1/762		12/1/763		12/1/764		12/1/765		12/1/766		12/1/767		12/1/768		12/1/769		12/1/770		12/1/771		12/1/772		12/1/773		12/1/774		12/1/775		12/1/776		12/1/777		12/1/778		12/1/779		12/1/780		12/1/781		12/1/782		12/1/783		12/1/784		12/1/785		12/1/786		12/1/787		12/1/788		12/1/789		12/1/790		12/1/791		12/1/792		12/1/793		12/1/794		12/1/795		12/1/796		12/1/797	
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### 200% OUTSIDE LEASE SCENARIO

[illegible]

COMPARISON OF 2 AVAILABLE SCENARIOS - NOTE THAT % ALLOCATION TO EACH DEPARTMENT IS ESTIMATED						
SF	TOTAL COST 20 YEARS	OCC. COST TO GENERAL FUND (46.5%)	OCC. COST TO ENTERPRISE FUND (53.5%)	OCC. COST TO INTERNAL SERVICE AND SPECIAL REVENUE FUNDS *** (14.1%)	PARKING	
101 4th Street Lease-to-Own	\$14,545	\$301,290,654	\$14,118,720	\$12,677,704	\$42,134,772	235
100% Private Lease	\$14,545	\$301,290,654	\$12,783,533	\$15,367,720	\$40,142,967	

\*\*\* Includes 17 (Fund 269326), Facilities Finance (Fund 200001), and LEA (Fund 200226) which would relocate from Executive Complex to 101 Ash Street. Actual allocations will vary based on amount of square footage occupied each year.

EXHIBIT B

SCENARIO 9 - ASSUMES TI OVERAGE OF \$10.5M, BASED UPON TI COST OF \$15,452,309.62 AND 40 HR/WK CONSTRUCTION SCHEDULE AND OCCUPY BY MARCH 2019

Advantage to City to lease-to-own vs leasing to third party over 20 years: \$6,127,894

The City of San Diego  
 20-Year Comparison of Downtown Lease-to-Own Vs. Leasing from Third Parties  
 January 1, 2017 - June 30, 2037

Last Updated: 5/16/2018

Assumptions:

Market Rent	\$2.88	\$2.91	\$3.00	\$3.09	\$3.18	\$3.28	\$3.38	\$3.48	\$3.58	\$3.69	\$3.80	\$3.91	\$4.03	\$4.15	\$4.28	\$4.41	\$4.54	\$4.67	\$4.81	\$4.95	\$5.11
Market Expenses	\$12.00	\$12.24	\$12.48	\$12.73	\$12.99	\$13.25	\$13.51	\$13.78	\$14.06	\$14.34	\$14.63	\$14.92	\$15.22	\$15.52	\$15.83	\$16.15	\$16.47	\$16.80	\$17.14	\$17.48	\$17.83
Expenses without Prop. Tax	\$9.60	\$9.79	\$9.99	\$10.19	\$10.39	\$10.60	\$10.81	\$11.02	\$11.25	\$11.47	\$11.70	\$11.94	\$12.18	\$12.42	\$12.67	\$12.92	\$13.18	\$13.44	\$13.71	\$13.99	\$14.27
Monthly Market Parking Rate	\$175	\$180	\$186	\$191	\$197	\$203	\$209	\$215	\$222	\$228	\$235	\$242	\$250	\$257	\$265	\$273	\$281	\$289	\$296	\$307	\$316
Rent Growth Rate	8.00%																				
Expense Growth Rate	2.00%																				

Fiscal Year	1 2017	2 2018	3 2019	4 2020	5 2021	6 2022	7 2023	8 2024	9 2025	10 2026	11 2027	12 2028	13 2029	14 2030	15 2031	16 2032	17 2033	18 2034	19 2035	20 2036	21 2037
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20 YEAR LEASE-TO-OWN SCENARIO WITH CISTERNA

101 Ash Street	SF	\$14,945	(Includes \$50M in TI and lease commences on 1/1/17)																		
Rent (\$1.70/15/mo NNN)	\$1.70	\$3,208,356	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718
Operating Expenses		\$1,609,816	\$8,080,075	\$3,141,625	\$5,264,458	\$3,508,547	\$3,839,918	\$1,400,399	\$3,468,403	\$3,537,980	\$3,508,740	\$3,680,815	\$3,754,133	\$3,829,624	\$3,906,216	\$3,984,840	\$4,064,027	\$4,143,808	\$4,223,134	\$4,311,778	\$4,399,034
Moving Expenses		\$0	\$0	\$1,510,980	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TI Overage (above \$5M)		\$0	\$0	\$10,452,891	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Fin. Exp.		\$0	\$0	\$91,667	\$187,500	\$149,982	\$141,765	\$133,137	\$124,651	\$115,858	\$106,410	\$98,879	\$87,035	\$76,091	\$66,497	\$55,745	\$44,660	\$38,237	\$21,468	\$0,331	\$0
EC Rent from 1/1/17-2/28/18	141,883	\$1,089,700	\$1,498,937	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
EC Expenses from 1/1/17-2/28/18		\$51,089	\$90,808	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Rent from DSO - 1/1/17-3/31/18		\$330,131	\$660,385	\$489,208	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Expenses from DSO - 1/1/17-3/31/18		\$236,772	\$463,015	\$349,506	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Expenses from GF red. by	50%	\$0	\$0	\$123,169	\$281,264	\$192,217	\$196,092	\$99,991	\$101,591	\$104,031	\$106,112	\$108,294	\$110,399	\$112,607	\$114,859	\$117,156	\$119,499	\$121,889	\$124,327	\$126,813	\$129,350
450 B St Rent (Elec) - 8 PTEs	\$2.83	\$0	\$28,505	\$59,636	\$0	\$0	\$0	\$6	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
800 B St Rent (Auditor/Fire) - 57 P1	\$3.10	\$0	\$139,240	\$417,719	\$0	\$0	\$0	\$6	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Rent for Displaced Employees	202	\$0	\$0	\$606,000	\$1,872,540	\$1,828,718	\$1,986,578	\$2,046,175	\$2,107,560	\$2,170,767	\$2,235,911	\$2,301,988	\$2,372,078	\$2,448,140	\$2,516,587	\$2,586,093	\$2,669,754	\$2,749,888	\$2,832,385	\$2,917,356	\$3,004,677
Parking (100 spaces)	100	\$0	\$0	\$76,268	\$279,473	\$236,857	\$243,448	\$250,751	\$258,274	\$266,022	\$274,002	\$282,222	\$290,689	\$299,410	\$308,392	\$317,644	\$327,178	\$336,993	\$347,098	\$357,511	\$368,236
Total Occupancy Costs		\$274,165,208	\$6,425,819	\$12,395,033	\$23,758,848	\$12,111,953	\$12,182,537	\$12,318,507	\$12,347,568	\$12,477,782	\$12,611,106	\$12,747,892	\$12,887,856	\$13,031,471	\$13,178,258	\$13,328,210	\$13,481,634	\$13,641,872	\$13,804,026	\$13,970,205	\$14,140,508

100% OUTSIDE LEASE SCENARIO

Outside Leased Space	SF	\$14,845																			
Rent		\$0	\$0	\$0	\$8,747,496	\$12,013,228	\$12,875,625	\$12,744,834	\$15,127,179	\$15,530,994	\$15,926,624	\$14,344,423	\$14,774,756	\$15,217,995	\$15,674,588	\$16,144,774	\$16,628,118	\$17,127,991	\$17,641,821	\$18,171,366	\$18,716,219
Parking (235 spaces)	235	\$0	\$0	\$0	\$404,445	\$555,430	\$572,102	\$588,265	\$604,948	\$621,151	\$648,904	\$668,209	\$689,119	\$705,631	\$724,721	\$745,468	\$766,857	\$789,923	\$813,480	\$840,151	\$868,355
Operating Expenses		\$0	\$0	\$0	\$0	\$118,889	\$240,386	\$323,714	\$408,729	\$485,444	\$568,893	\$674,112	\$766,135	\$855,938	\$935,739	\$0	\$69,609	\$101,209	\$304,642	\$410,547	\$518,947
Total Occupancy Costs		\$280,303,102	\$0	\$0	\$9,151,941	\$12,687,636	\$13,196,033	\$13,657,813	\$14,142,850	\$14,643,589	\$15,154,423	\$15,681,758	\$16,224,010	\$16,781,609	\$17,354,993	\$17,939,228	\$18,534,407	\$19,147,382	\$19,779,123	\$20,429,940	\$21,100,844

COMPARISON OF 2 AVAILABLE SCENARIOS - NOTE THAT % ALLOCATION TO EACH DEPARTMENT IS ESTIMATED

	SF	TOTAL OCC. COST OVER 30 YEARS	OCC. COST TO GENERAL FUND (66.5%)	OCC. COST TO ENTERPRISE FUND (33.5%)	OCC. COST TO INTERNAL SERVICE AND SPECIAL REVENUE FUNDS *** (14%)	PARKING
101 Ash Street Lease-to-Own	334,545	\$274,165,108	\$322,002,473	\$113,778,520	\$38,381,115	235
100% Outside Lease	314,845	\$280,303,102	\$124,784,880	\$116,325,787	\$39,242,436	235

\*\*\* Includes IT Fund 200908, Facilities Finance Fund 200201, and LEA Fund 200206 which would relocate from Executive Complex to 101 Ash Street. Actual allocations will vary based on amount of square footage occupied each year.

EXHIBIT B

SCENARIO 4 - ASSUMES TI OVERAGE OF \$27.6M, BASED UPON TI COST OF \$27,647,261.24 AND 40 HR/WK CONSTRUCTION SCHEDULE AND OCCUPY BY OCTOBER 2019

Advantage to City to lease-to-own or leasing in third party over 20 years \$40,385,358

The City of San Diego

20-Year Comparison of Downtown Lease-to-Own Vs. Leasing from Third Parties

January 1, 2017 - June 30, 2037

Last Updated:

5/16/2018

Assumptions:

Market Rent	\$2.83	\$2.91	\$3.00	\$3.09	\$3.18	\$3.28	\$3.38	\$3.48	\$3.58	\$3.69	\$3.80	\$3.91	\$4.03	\$4.15	\$4.28	\$4.41	\$4.54	\$4.67	\$4.81	\$4.96	\$5.11
Market Expenses	\$12.00	\$12.24	\$12.48	\$12.72	\$12.99	\$13.25	\$13.51	\$13.78	\$14.06	\$14.34	\$14.63	\$14.92	\$15.22	\$15.52	\$15.83	\$16.15	\$16.47	\$16.80	\$17.14	\$17.48	\$17.83
Expenses without Prop. Tax	\$8.40	\$9.79	\$9.99	\$10.19	\$10.39	\$10.60	\$10.81	\$11.03	\$11.25	\$11.47	\$11.70	\$11.94	\$12.18	\$12.42	\$12.67	\$12.92	\$13.18	\$13.44	\$13.71	\$13.99	\$14.27
Monthly Market Parking Rate	\$175	\$180	\$186	\$191	\$197	\$203	\$209	\$215	\$222	\$228	\$235	\$242	\$250	\$257	\$265	\$273	\$281	\$289	\$298	\$307	\$316
Rent Growth Rate	8.00%																				
Expense Growth Rate	2.00%																				

Fiscal Year	1 2017	2 2018	3 2019	4 2020	5 2021	6 2022	7 2023	8 2024	9 2025	10 2026	11 2027	12 2028	13 2029	14 2030	15 2031	16 2032	17 2033	18 2034	19 2035	20 2036	21 2037
20 YEAR LEASE-TO-OWN SCENARIO WITH CISTERNA																					
101 Ash Street SF	\$14,545																				
Rent (\$1.70/sq/m NNN)	\$1.70	\$2,268,357	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718
Operating Expenses		\$1,509,216	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035	\$2,380,035
Moving Expenses		\$0	\$0	\$1,510,950	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TI Overage (above SSM)		\$0	\$0	\$22,647,261	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Fin. Exp.		\$0	\$0	\$220,000	\$830,000	\$359,596	\$340,284	\$320,010	\$295,114	\$277,579	\$255,383	\$232,506	\$208,992	\$184,635	\$159,563	\$133,784	\$107,184	\$79,769	\$51,318	\$22,395	\$0
EC Rent from 1/1/17-2/28/18	141,868	\$1,089,700	\$1,456,387	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
EC Expenses from 1/1/17-2/28/18		\$51,040	\$90,908	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Rent from OSD - 1/1/17-10/31/19		\$330,195	\$660,385	\$660,385	\$165,098	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Expenses from OSD - 1/1/17-10/31/19		\$234,772	\$469,545	\$469,545	\$117,387	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Expenses from GF red. by	50%	\$0	\$0	\$0	\$188,448	\$356,200	\$261,415	\$133,322	\$135,988	\$136,708	\$141,402	\$144,812	\$147,498	\$150,142	\$152,345	\$154,208	\$155,932	\$157,519	\$159,064	\$172,466	\$87,988
450 S St Rent (Ethical)		\$2.85	\$0	\$26,505	\$60,581	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
600 S St Rent (Auditor/Fire)		\$8.10	\$0	\$189,240	\$561,001	\$143,282	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Rent for Displaced Employees		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Additional Parking (C spaces)		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Occupancy Costs	\$239,557,407	\$6,425,919	\$12,895,028	\$35,781,187	\$10,894,659	\$10,301,510	\$10,352,226	\$10,270,646	\$10,326,428	\$10,370,995	\$10,421,923	\$10,474,452	\$10,527,982	\$10,581,119	\$10,635,872	\$10,691,030	\$10,747,261	\$10,804,313	\$10,862,216	\$10,920,975	\$10,980,718
100% OUTSIDE LEASE SCENARIO																					
Outside Leased Space	314,545																				
Rent		\$0	\$0	\$0	\$8,747,496	\$12,013,226	\$12,973,853	\$12,744,594	\$13,127,179	\$13,520,894	\$13,926,624	\$14,344,427	\$14,774,756	\$15,217,898	\$15,674,238	\$16,144,774	\$16,629,118	\$17,127,991	\$17,641,831	\$18,171,086	\$18,716,219
Parking (235 spaces)	235	\$0	\$0	\$0	\$404,446	\$559,498	\$572,162	\$566,269	\$406,942	\$625,161	\$641,906	\$663,221	\$689,119	\$709,618	\$724,721	\$746,465	\$768,857	\$791,923	\$815,680	\$840,151	\$865,305
Operating Expenses		\$0	\$0	\$0	\$0	\$159,852	\$240,868	\$328,714	\$408,728	\$495,444	\$583,383	\$674,112	\$766,135	\$856,098	\$948,720	\$0	\$65,869	\$201,209	\$304,842	\$410,547	\$518,367
Total Occupancy Costs	\$280,342,765	\$0	\$0	\$0	\$9,153,942	\$12,772,710	\$13,186,099	\$13,667,819	\$14,142,850	\$14,941,599	\$15,154,429	\$15,681,758	\$16,224,010	\$16,781,609	\$17,364,858	\$16,891,238	\$17,497,583	\$18,111,128	\$18,762,358	\$19,421,784	\$20,090,340

COMPARISON OF 2 AVAILABLE SCENARIOS - NOTE THAT % ALLOCATION TO EACH DEPARTMENT IS ESTIMATED

	SF	TOTAL OCC COST OVER 20 YEARS	OCC. COST TO GENERAL FUND (44.25%)	OCC. COST TO ENTERPRISE FUND (10.00%) (41.59%)	OCC. COST TO INTERNAL SERVICE AND SPECIAL REVENUE FUNDS *** (14.5%)	PARKING
101 Ash Street Lease-to-Own	314,545	\$290,987,407	\$126,761,046	\$99,563,324	\$63,264,037	235
100% Outside Lease	314,545	\$280,342,765	\$124,752,511	\$116,342,748	\$59,247,987	235

\*\*\* Includes IT (Fund 260308), Facilities Finance (Fund 200301), and LEA (Fund 200236) which would relocate from Executive Complex to 101 Ash Street. Actual allocations will vary based on amount of square footage occupied each year.